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To celebrate the 60th anniversary of the RAND Corporation, we train the spotlight on several ways in which RAND has worked to explore ideas and challenges that place us “ahead of the curve.” At the same time, we look ahead to how RAND will continue in that tradition.

The world does not proceed directly from Point A to Point B to Point C—which makes research on social, national, or global progress more challenging and interesting for RAND. For us, staying ahead of the curve means deepening and broadening our knowledge of progressively more complex problems around the world so that we can help leaders of all kinds rise to their own unforeseen and shifting challenges.

In the pages that follow, we highlight several of our research activities of 2007 and take a glimpse of RAND’s earlier work shaping the debate in these same fields.

RAND is at the center of a proud analytical tradition of recommending policy options based on the most probable future conditions. Over the past year, we have begun using new tools to offer options even in the face of indeterminate future conditions. Although future conditions cannot be reliably identified or agreed upon, our recent work on issues of climate change and terrorism risk suggests we can build upon RAND’s more traditional methodologies to give policymakers options even in uncertain times.

And in the United States—where we have created the most professional military services in the history of the world and RAND researchers have contributed expertise on manpower issues for decades—RAND’s latest work takes on whether and how we should be reorganizing those services for a world where instability anywhere has become a potential global security threat.

As we reflect upon the latest in our 60 years as a nonprofit organization helping to improve policy and decisionmaking, we also rededicate ourselves to staying ahead of the curve. We intend to do that by sticking with what’s worked so well over the past six decades. Asking the important questions. Looking to data and evidence for answers. Rejecting partisan ideologies. Developing innovative methodologies and tools. Applying the lessons of the past. Strengthening our grasp of the present. And facing the new challenges of the future.
To do this, we rely upon the trust and support of those who value what RAND offers to policymakers and decisionmakers. We thank you for helping us stay “Ahead of the Curve.”

Ann McLaughlin Korologos
Chairman, RAND Board of Trustees

James A. Thomson
President and Chief Executive Officer
Focusing on Quality in Children’s Health Care

In recent years, the policy debate over children’s health care has focused on expanding access to insurance coverage, either through government-sponsored programs or other mechanisms. After undertaking previous research that showed U.S. adults receive recommended medical care only about half of the time, a group of RAND Health researchers led by RAND Health Associate Director Elizabeth McGlynn set out to determine whether the quality of pediatric care in the United States was as good as it should be. No large-scale study evaluating the quality of medical services delivered to children had ever been conducted in the United States.

To address this information gap, RAND researchers collaborated with pediatricians from the Seattle Children’s Hospital Research Institute and researchers at the University of Washington School of Medicine to conduct a comprehensive examination of the quality of pediatric care, based on medical records of more than 1,500 children randomly selected from 12 metropolitan areas. The results, released in 2007, shocked the medical community. Finding that U.S. children fare even worse than adults when it comes to getting quality care, the study revealed that, on average, children receive care consistent with recommended guidelines only 46 percent of the time. The study also found that quality varied widely according to type of care. Children received 68 percent of recommended care for acute medical problems, but only 53 percent of recommended care for chronic medical conditions, and 41 percent of recommended preventive care. This means children are not receiving recommended preventive care and screening services, such as regular weight and measurement checks to ensure that they are growing properly and are not at risk for obesity; nor are they receiving standard care for prevalent, serious conditions, such as asthma and diarrhea. Moreover, most of the children studied had insurance—suggesting that the results may be even worse if data included the legions of uninsured and underinsured American children.

RAND’s earlier study illustrating the poor state of adult care provided a wake-up call to improve health care quality for individuals over age 18. Study author McGlynn says this latest study is similarly refocusing attention on the quality of services delivered to children: “Up until now, most people in the medical community assumed that quality medical treatment was not a problem for children. Our study tells us that’s not true. We need to get health care right for children—and we need to do it now.” Poor quality care is also likely to impose even greater financial burden on an already overburdened system. Chronic conditions such as diabetes and hypertension are on the rise in children, in part due to an increase in obesity levels. Failure to effectively intervene in childhood results in poorer adult health and increased medical spending to address the wide-ranging health problems caused by unmanaged conditions.

But why does such a gap exist between the care medical care professionals know is needed for children and that which is actually provided to young patients? Researchers posit that systemic barriers such as insurance compensation systems, which effectively limit the amount of time doctors spend with child patients, likely play a role, but more research is needed to clarify specific causes and craft effective solutions. In the meantime, study authors note that a critical first step to closing the quality gap is addressing the information gap. With the problem now illuminated, researchers recommend that next steps include a greater investment in health information technology systems, as well as increased attention to documenting and measuring quality of care for children.
A New Division of Labor for Meeting New Security Challenges

For six decades, RAND has helped the Department of Defense (DoD) better understand and respond to a wide range of threats and adversaries. Since the commencement of Operation Iraqi Freedom in 2003, much RAND analysis has focused on helping DoD meet the current demands of war. Still another set of projects has drawn on RAND’s unique analytical strength in taking the long view and looks beyond Iraq to ensure that the United States is prepared to handle a range of additional, emerging security threats posed by terrorist groups, nuclear-armed adversaries, and enemy forces equipped to conduct sophisticated anti-access operations.

In 2007, a team of RAND researchers led by Andrew R. Hoehn, a RAND vice president and director of RAND Project AIR FORCE, proposed that the divergent nature of new security challenges faced by the United States will require all four military services to rethink the way they are manned, equipped, and deployed. Hoehn, a former Deputy Assistant Secretary of Defense for Strategy who has participated in all major reviews of defense policy and strategy since the end of the Cold War, says, “Today’s global security landscape presents a new paradigm. U.S. forces are being called upon to perform new missions far outside their normal repertoire, from confronting terrorism spawned by radical Islam to the possibility of fighting new nuclear powers.”

The RAND report contends that U.S. strategy for sizing military forces must (a) account for long-term, day-to-day demands of countering terrorism and insurgency and (b) preserve the ability to project sizeable military forces to more than one geographic region at a time. Both requirements are necessary to support long-term U.S. national security goals, but distinctly different patterns of cooperation among the military services must be developed. The report goes on to note that U.S. military forces will need to remain engaged in remote areas of the world, particularly along the periphery of Asia. “The era is gone when strategists could divide the planet into regions where the nation has important interests at stake . . . and where it does not,” the report notes. “In terms of classic geopolitics, Afghanistan and Sudan were beyond the strategic purview of the United States, yet they were the breeding grounds of al Qaeda.”

The report recommends recasting U.S. defense strategy to bring America’s defense capabilities into better alignment with the nation’s broader goals. This includes significantly increasing the emphasis on helping to create or enhance stability in key areas abroad. To do this, DoD should consider focusing a much larger proportion of U.S. ground forces on direct and indirect stability operations and accept the risk of shifting some of the burden for deterring and defeating large-scale aggression to air and naval forces. This decision would permit the Army and Marine Corps, in conjunction with Special Operations Forces, to improve their stability-operations capabilities by relieving them of the requirement to provide forces for more than one major “conventional” war. The Navy and Air Force would retain their primary focus on large-scale power-projection operations and would continue to provide essential enabling capabilities for direct and indirect stability operations.

Finally, the report cautions that while striving to fix what is broken, DoD should be careful not to break what is fixed. Continued, selective investment in areas in which the United States currently excels will be needed alongside the new initiatives required to address the nation’s emerging security problems.
Smart Rebuilding for a New, Better Gulf Coast

In the two years since Hurricane Katrina devastated the Gulf States region of the United States, recovery efforts have proceeded along multiple dimensions: restoring infrastructure, reviving economies, treating emotional trauma. The RAND Gulf States Policy Institute has been a valuable partner in the recovery process, conducting careful analyses of these issues and many others to provide regional decisionmakers with evidence-based strategies for rebuilding communities in ways that will satisfy current and future needs.

“What we found,” notes McCarthy, “is that while a fair amount of residential rebuilding is occurring across the region, construction of affordable housing is seriously lagging.” The study contends that failure to replenish affordable housing has likely slowed the overall pace of regional economic recovery, as it makes it difficult to attract the construction laborers and other workers needed to make infrastructure improvements. While findings indicate that replacement of all housing types is expected to take at least three more years at a cost of more than $4 billion, the study notes the near-term imperative of implementing a balanced growth plan that provides housing for people at every income level.

Access to financing appears to be the single biggest obstacle to the residential rebuilding effort. Despite the availability of numerous financial resources—including insurance proceeds, Mississippi Homeowner Assistance Grants, and government loans—gaps in financing remain. These gaps are experienced most prominently by landlords of multifamily rental properties as well as uninsured and underinsured households that suffered major damage. Filling these gaps, the study reveals, would do more to expedite recovery than any other policy action.

The report has been well-received and is focusing needed attention on developing policies to ensure that housing is rebuilt both quickly and equitably. But the study’s authors also caution that additional steps are needed to mitigate against damage from future storms. “Rebuilding efforts following the damage caused by Hurricane Camille in 1969 put speed over mitigation measures,” McCarthy notes. “The legacy of that decision can be seen in much of the widespread destruction wrought by Katrina.” Acknowledging that Hurricane Katrina is not the first hurricane to devastate the region, nor is it likely to be the last, the report recommends that reconstruction policies be balanced with stricter zoning regulations and other “smart growth” principles to protect against damage from future storms. Some progress has been made in this regard, and the study points to the Mississippi Homeowners Grant Program, which requires grant recipients to comply with new and stricter building codes, including elevation requirements, and the purchase of floodplain insurance. But such mitigation measures tend to increase the cost of rebuilding, which increases political pressure to dispense with such measures in favor of more rapid and inexpensive construction.
Confronting an Uncertain Future

Tackling exceptionally complex problems requires new ways of thinking. Since the 1950s, RAND has led the way in developing many now-famous analytical methods such as dynamic programming, assumption-based planning, and multiple applications of game theory, now used by public and private decisionmakers worldwide.

In 2007, RAND researchers used a new analytical method called robust decision making (RDM) to help decisionmakers address a range of complex and uncertain issues, from climate change to terrorism, and craft current policies that are likely to hold up against a wide range of plausible futures. RDM works by using computer simulations to create thousands of possible future scenarios for a given issue, and then using search algorithms, interactive visualization, and statistical analyses to identify current policy options that will be the most “robust” in addressing a problem over the long term—that is, those options that achieve their objectives regardless of whether future conditions turn out as expected.

For issues involving deep uncertainty, the approach represents a significant advance over traditional decision analytics typically relied on by policy analysts. Notes RAND researcher Rob Lempert, who has been involved in numerous applications of RDM in recent years, “Traditional decision analytics involve developing policy options based on the most probable future conditions. But when decisions involve deep uncertainty, the most likely future scenario can’t be reliably identified or agreed upon. In such cases, traditional approaches can cause decisionmakers to severely underestimate problems or face surprises down the road.”

RDM, on the other hand, embraces uncertainty and allows policymakers to make better decisions by answering a fundamentally different question: “What actions today can best usher in desirable outcomes regardless of what future we face?”

In 2007, RAND researchers used RDM to help water resource managers in Southern California tailor their long-range investment plans to better address the potential impacts of climate change. These decisionmakers have to confront the possibility that in coming decades Southern California may face more and more lengthy droughts. But even the best scientific projections about the impacts of climate change and the probability, length, and frequency of droughts contain many uncertainties. RAND’s application of RDM to demonstrate the impact of various management strategies taken today across large numbers of potential computer-generated future scenarios is helping these managers make better decisions to ensure a reliable and high-quality water supply for the future.

RDM was also used to help federal lawmakers evaluate the implications of renewing and/or revising the Terrorism Risk Insurance Act (TRIA), the law passed after 9/11 to provide a temporary federal backstop for property and casualty claims resulting from the massive damages incurred in the attacks. The challenge Congress faced was how to effectively and fairly allocate financial risk for terrorist events which, by their nature, are fraught with deep uncertainties. For example, there are uncertainties about the frequency and types of terrorist attack—conventional, nuclear, biological, chemical, or radiological—and there are uncertainties about the rate at which businesses would “take up” insurance coverage for policy losses under different government interventions in the terrorism market. There is also uncertainty about whether and how much the government will compensate businesses without insurance after any terrorist attack. Using an RDM approach, RAND researchers were able to show how different legislative strategies would perform under thousands of possible futures. The results showed benefits to leaving TRIA intact, but suggested additional consideration be given to planning for unconventional terrorist attacks.

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Better Decisionmaking >> In the 1950s and ’60s, RAND developed the Delphi method, a systematic interactive method for eliciting the intuitive judgments of experts and for building a group consensus. The technique has proven useful in extrapolating informed opinion in the absence of exact knowledge. Its aim initially was to assess the direction of long-range trends, with special emphasis on science and technology, and their probable effects on society.

“RDM can help prevent policymakers from preparing for a ‘best guess’ scenario that ends up being a bad guess,” concludes Lempert. “When the future is most ill-defined and unpredictable, an RDM approach can help policymakers take actions today that can positively shape our long-term future.”
Strengthening Surveillance and Response

The threat of a human influenza pandemic is a top concern for global health officials. During the last five years, more than 300 human cases of an avian flu virus known as H5N1 have been confirmed in 14 countries. Should the virus mutate to permit easy human-to-human transmission, the implications would be grave: In the United States alone, it is estimated that as much as 30 percent of the population could become infected, at a cost between $71 billion and $167 billion.

The RAND team conducted a yearlong investigation into best methods for detecting early cases of influenza illness that have the propensity to become pandemic. The study examined disease surveillance in a much broader and more systematic way than has been done before, with particular emphasis on identifying new strategies for surveillance that are unconstrained by traditional public health approaches. The findings set forth 16 specific strategies for improving surveillance that range from using new sources of disease information (e.g., the community, the electronic media, and nongovernmental organizations) to seeking new surveillance signals (e.g., disease events among persons who do not or cannot seek clinical services).

The study also recommends the formation of strategic partnerships—with other U.S. government agencies, international organizations, foreign laboratory networks, foreign development agencies, and a range of nongovernmental organizations—as a key approach to improving global surveillance. Through strategic partnerships, HHS can extend its reach, potentially at little or no additional cost, and thus optimally direct its own resources while leveraging partners to help produce even greater improvements in surveillance globally. The RAND team combined these findings into a unique interactive tool to be used by surveillance agencies in evaluating which combination of strategies will help to improve the chances that a case of disease is accurately detected and confirmed by a reference laboratory, and to reduce the time it takes to do so.

Benefits of the interactive tool include more effective policymaking and also more efficient resource allocation.

In 2007, RAND researchers also contributed to non-U.S. pandemic preparedness efforts by conducting a series of simulation exercises for members of the Mekong Basin Disease Surveillance Network (MBDS)—the Kingdom of Cambodia, the People’s Republic of China, Lao People’s Democratic Republic, the Union of Myanmar, the Socialist Republic of Vietnam, and the Kingdom of Thailand. With large numbers of people and animals crossing shared borders each day, these countries face heightened risks of an outbreak. The RAND-developed tabletop exercise, the first of its kind, tested MBDS systems for responding to a plausible pandemic threat. The exercise helped to expose gaps and weaknesses in existing surveillance and response systems and helped foster collaboration among health officials in each nation.
The Impact and Promise of No Child Left Behind

Under the No Child Left Behind Act of 2001 (NCLB), schools are held accountable for ensuring that all students reach proficiency on state assessments by 2013–14. In 2007, RAND released a series of studies evaluating various aspects of NCLB including implementation of its many requirements, effects on student achievement and teacher quality, and the impact of options afforded parents of children attending low-performing schools. The results give NCLB mixed reviews and are helping educators and federal policymakers better understand NCLB’s impact and limitations and chart a course for revision and improvement of the law.

In one study, researchers looked at schools’ progress in implementing NCLB’s accountability provisions. They found that most states, districts, and schools had met accountability requirements and 75 percent of schools were making adequate yearly progress toward proficiency in math and reading. However, because NCLB allows states to define “proficiency” differently, a student deemed to be proficient in one state might be considered not proficient in another. The same is true for schools and districts. Without national proficiency standards, children in states that have lower standards are at risk of being left behind, even as NCLB’s provisions are being implemented and adhered to. Moreover, many schools report needing greater assistance in fulfilling NCLB’s requirements when it comes to serving students with special needs, such as those with disabilities and limited English proficiency.

Researchers also aimed to identify factors that enhance the implementation of its standards-based accountability systems, encourage positive changes in teaching practices, and improve student achievement. Researchers learned that educators found implementation of the law difficult: Superintendents cited inadequate funding; principals cited insufficient staff time to meet administrative responsibilities; teachers reported insufficient time for instruction and planning. And large majorities of teachers reported being hindered by the wide range of student abilities in their classes, students’ lack of basic skills, inadequate parental support, and absenteeism and tardiness. NCLB implicitly challenges teachers to promote high achievement despite these conditions, but most teachers considered the expectation unrealistic. Teachers also cite as unfair the fact that “adequate yearly progress” in test scores is defined in terms of grade-level proficiency rates rather than individual-level progress over time, thus failing to give credit for learning gains promoted by teachers at all points along the scoring spectrum. To address such concerns, researchers recommend improving alignment among standards, tests, and curriculum; providing educators with professional development assistance; and exploring more accurate ways to measure performance. They also recommend the federal government explore different types of metrics that take improvement into account across the distribution of achievement.

RAND also evaluated whether NCLB’s two options for parents whose children attend schools making inadequate progress work to improve achievement. Option 1 is the opportunity to transfer a child to a higher-performing school. Option 2 is the opportunity for low-income parents to enroll the child in supplemental educational services, such as tutoring, remediation, or other academic instruction. Researchers found that Option 2 did have a significant positive effect on reading and math achievement scores in the district studied, and they recommend ways to support this option and make it more available to students. They did not find an achievement effect associated with Option 1, but the number of participants in most districts was quite small, making it difficult to conclusively assess its effects.
Counterinsurgency for a New Era

For five decades, RAND analysts have studied insurgencies and counterinsurgency (COIN) operations to create a detailed body of expert knowledge on the patterns and techniques of counterinsurgency, the effective organizational and operational approaches for successful campaigns, and the unique political and psychological tactics involved in COIN operations. As insurgent threats evolve and assume new forms, the United States must also evolve in its ability to counter potentially prolonged threats in several parts of the world. New RAND analyses on COIN published in 2007 are helping policymakers at the highest level of government better understand and craft responses to the insurgencies currently faced by the United States in Iraq and Afghanistan, as well as those it is likely to face in the future.

A HEAD OF THE CURVE

Counterinsurgencies

In 1962, RAND convened the Symposium on Counterinsurgency in Washington, D.C., to bring together those with firsthand experience of guerrilla and counterguerrilla warfare to build a comprehensive body of expert knowledge. The subjects discussed included patterns and techniques of counterinsurgency, effective organizational and operational approaches, political action, psychological warfare, intelligence and counterintelligence, and requirements for victory. One year later, RAND consultant David Galula published his groundbreaking treatise, Pacification in Algeria, which reconstructs the French response to Algeria’s nationalist uprising. Galula’s theories on counterinsurgency and pacification, and his observations on the political, psychological, and military aspects of the Algerian war, challenged conventional COIN theories of the day and present approaches for predicting, managing, and resolving insurgent conflict that bear especial relevance for present-day COIN operations.

In one report, researchers examine six historical COIN campaigns from the 19th and 20th centuries and draw lessons learned to help current and future leaders avoid repeating prior mistakes and to build a foundation for developing contemporary COIN strategy. The historical operations studied were selected for their varied characteristics relating to geography, historical era, outcome, type of insurgency, and the level of U.S. or foreign involvement, and include the Philippines (1899–1902), Algeria (1954–1962), Vietnam (1959–1972), El Salvador (1980–1992), Jammu and Kashmir (1947–present), and Colombia (1963–present). Within each case study, researchers focused on specific issues such as the counterinsurgents’ ability to innovate and adapt, the need to develop an approach for recognizing threats, and the tactics employed for confronting the insurgencies. From this, they identify which tactics, techniques, and procedures led to success and which to failure.

In another comparative analysis, RAND takes a closer look at the recently successful stability operations led by Australia in the Solomon Islands. When crime, corruption, and escalating militia violence in the small island nation threatened to topple government control, Australia organized the Regional Assistance Mission to Solomon Islands (RAMSI) to provide support in reestablishing order and to help rebuild the violence-torn civil society. With only several weeks to prepare, RAMSI personnel arrived to the Solomon Islands armed for conflict but equally ready to restore peace without using force. The RAND study reviews the successes, and the shortcomings, of RAMSI operations through the lens of broader application to current and future counterinsurgency efforts. It highlights as the primary hallmarks of RAMSI’s success the effective orchestrating of intragency capabilities, the ability to capitalize on multinational resources, and gaining the moral and operational high ground in the conflict.

A third study looks at current U.S. COIN strategy, which relies heavily on the employment of American military force to deal with radical Islamic insurgents, and recommends an alternative approach that places cognitive abilities and indigenous capabilities at the center of U.S. efforts. The author argues that traditional COIN tactics used by the United States and its allies today are, and will continue to be, ineffective against modern insurgencies that are increasingly decentralized, geographically dispersed, and located within an urban landscape that includes innocent civilians as well as militants. Gaining the upper hand against globalized insurgencies calls for greater investment in brain power, decisionmaking, and better utilization of the tools of the information age. With a two-part plan that focuses on developing institutional conditions conducive to smarter COIN and implementing measures designed to develop key cognitive abilities in soldiers, police, diplomats, aid providers, and others engaged in COIN, the author proposes a future where COIN and stability operations succeed with brains, not just brawn.
Improving the Quality of the Policy Debate

RAND’s commitment to making a difference means that the scholarly objectives of expanding knowledge, illuminating issues, and developing new ideas are important means rather than ends. Communicating our research findings to decisionmakers who can use them is an essential part of RAND’s mission. In 2007, our dissemination activities were impressively broad, yet effectively targeted to influential decisionmakers capable of using our findings to inform their decisions and influence positive change.

**Advising Senior Executive Branch Officials.** RAND researchers conducted numerous briefings for top military and civilian leadership on issues of geopolitics and global security; intelligence policy; military force structure; logistics and infrastructure; personnel, training, and health; and acquisitions and technology. In addition, RAND researchers

- briefed White House leadership on findings from a study on counterinsurgency efforts in Afghanistan;
- helped senior staff from the State Department, the Joint Chiefs of Staff, and other offices and agencies assess the strategic and operational challenges posed by Iran and evaluate options for meeting those challenges;
- briefed senior officials in the Department of Homeland Security on issues including passenger rail security;
- briefed Department of Veterans Affairs officials on issues related to post-traumatic stress disorder;
- made presentations to the Secretary of Education, other U.S. Department of Education officials, and numerous state education officials on the impacts of No Child Left Behind.

**Informing Congress.** RAND delivers research findings and lends analytical expertise to Congress to help legislators make better-informed decisions about the nation’s many challenges.

- RAND researchers testified before Congress on 28 occasions, contributing objective analysis to debates on issues such as the federal role in supporting alternative energy investment, renewal of the Terrorism Risk Insurance Act, and understanding terrorist ideology.
- RAND convened dozens of bipartisan briefings to discuss findings on issues at the top of the legislative agenda, including challenges facing the global supply chain, the impact of the State Children’s Health Insurance Program on children’s quality of life, and challenges for U.S.–China relations.
- Electronic newsletters customized for a congressional audience are delivered monthly to present research findings relevant to timely policy debates on Capitol Hill.

**1946**

The First Satellite Design > More than 11 years before Sputnik, RAND released its first report while still at Douglas Aircraft, Preliminary Design of an Experimental World-Circling Spaceship. At the time, it was the most comprehensive engineering study of the nuts-and-bolts realities of a satellite spacecraft.
Supporting State and Local Decisionmaking. RAND research was also presented to a significant number of senior officials at state and local levels.

- Research from the RAND Gulf States Policy Institute on Hurricane Katrina’s impact on school attendance and test scores was briefed to Louisiana state officials, as were findings from a separate analysis of Louisiana’s hurricane protection and coastal restoration planning. Findings that exposed the lagging pace at which affordable housing is being rebuilt in the most damaged coastal counties in Mississippi were also briefed widely among regional public and private stakeholders in Mississippi.
- In California, researchers briefed lawmakers and other senior state officials on a range of top issues, including improving the seismic safety of hospitals and the adequacy and efficiency of preschool education.
- In Pennsylvania, researchers provided senior state and county officials with the first data available about the fiscal impact and cost savings of an innovative mental health courts program. Findings about the impact on academic performance of after-school tutoring programs in Pittsburgh’s public school system reached the district superintendent, local foundations, and supplemental services providers.
- Findings from several 2007 RAND Health studies were requested by a number of state legislatures and state and local public health agencies to help inform policy debate about enhancing vaccination coverage among adults and promoting evidence-based falls prevention strategies.

Briefing International Decisionmakers. In addition to the outreach conducted by RAND Europe and the RAND-Qatar Policy Institute to brief their respective policy communities on issues of regional importance, RAND staff regularly engage with senior policymakers outside the United States to lend insights on matters of international interest.

- RAND’s acclaimed research on strategies to help a Palestinian state succeed once a final status accord is reached was briefed to former U.K. Prime Minister Tony Blair, now Special Envoy for the Quartet on the Middle East.
- Findings from The Beginner’s Guide to Nation-Building were briefed to the World Bank and the entire staff of the United Nations’ Department of Peacekeeping Operations, and NATO distributed copies of the report to 50 top staff members on the ground in Afghanistan.
- RAND Europe’s research on detecting fraud and error in the U.K. social security system formed the basis of a World Bank distance-learning module that is being used to train Bank clients and staff worldwide on social security fraud issues.

Reaching Private-Sector Decisionmakers. Increasingly, RAND findings are being discussed with senior executives in the corporate world. Notable examples in 2007 include

- numerous briefings by researchers to senior insurance industry leaders on matters related to public–private risk allocation for catastrophes;
- presentations to major shopping mall owners on strategies for safeguarding their properties against terrorism;
- a conference for commercial logistics professionals to discuss issues confronting the global supply chain;
- a meeting among Silicon Valley information technology executives to explore the impact of cyber crime on U.S. businesses;
- recent work by the RAND Gulf States Policy Institute on economic revitalization and organizing public–private partnerships, which was briefed extensively to business interests in New Orleans.
Enriching the Public Debate

An important part of RAND’s public service mission is to enrich the quality of public debate on top policy issues. We strive to disseminate the findings from our objective, high-quality analyses to as broad an audience as possible through coverage by news outlets around the world; through commentary by RAND researchers; and via our Web site, which provides a portal for exploring RAND’s library of knowledge.

A Public Resource

In 2007, findings from RAND research were made publicly available in more than 1,000 published reports and documents. The majority of these materials, along with over 10,000 other RAND documents published since 1946, are available on RAND’s Web site for free download. Altogether, more than four million copies of RAND publications were downloaded from www.rand.org in 2007. RAND also introduced 67 RSS feeds to deliver RAND content from across five categories—featured research, featured projects, news and events, hot topics, and bookstore releases—to policy observers desiring the latest updates on RAND findings. This expands RAND’s current offerings of subscription services, which include the RAND News Bulletin, a monthly electronic newsletter of broad public interest that delivers news of the latest RAND findings and analyses, and the quarterly RAND Review, RAND’s flagship periodical, which covers big policy issues with an eye for the important details.

Sharing Findings Through Media

In 2007, more than 2,700 individual media reports featuring RAND research or researchers were published or broadcast by newspapers, magazines, news services, and television and radio networks around the world. Studies published in 2007 that received the heaviest news coverage included analyses of (1) the poor quality of pediatric health care; (2) the safety risks posed by senior drivers; (3) racial patterns among pedestrian stops made by New York City police officers; (4) the academic achievement of students enrolled in privately run public schools in Philadelphia; and (5) the ability of California hospitals to meet deadlines for new seismic safety standards.

These commentaries provided timely, reasoned assessments of issues ranging from mounting ethnic tensions in Turkey’s and Afghanistan’s increasing civil strife to strategies for easing urban traffic congestion and planning for the consequences of our aging population.

Providing a Forum for Public Engagement
RAND hosted a variety of events in 2007 to inform the public debate on a broad spectrum of top policy problems. Policy Forums in Los Angeles, Washington, D.C., and Pittsburgh brought together RAND experts with prominent local policymakers and preeminent thinkers to discuss and debate nation-building in Iraq and beyond; the impact and promise of the No Child Left Behind Act; strategies for helping youth exposed to violence; America’s obesity epidemic; efforts to sustain the nonprofit arts sector in U.S. urban centers; new responses to homelessness; challenges in funding public transportation; and more. RAND also hosted lectures by visiting dignitaries including Admiral Thad W. Allen, Commandant of the U.S. Coast Guard, who addressed concerns regarding port security and how the service is preparing to deliver effective emergency response in the wake of natural disasters like Hurricane Katrina.
RAND Staff

Approximately 1,600 people from more than 45 countries work at RAND, representing diversity in work experience; political and ideological outlook; race, gender, and ethnicity; and academic training. This diversity reinforces RAND’s core values of quality and objectivity by promoting creativity, deepening understanding of the practical effects of policy, and ensuring multiple viewpoints and perspectives.

Most staff work at RAND’s three principal U.S. locations: Santa Monica, California; Arlington, Virginia; and Pittsburgh, Pennsylvania. Others operate from the RAND Gulf States Policy Institute located in Jackson, Mississippi and New Orleans, Louisiana; RAND Europe in Cambridge, UK; and the RAND-Qatar Policy Institute in Doha, Qatar.

To provide the comprehensive expertise needed to fully address public policy issues, RAND hires staff from a variety of disciplines. Our researchers represent nearly every academic field and profession, from engineering and behavioral science to medicine and economics.
President’s Awards

President’s Awards recognize individuals whose work exemplifies RAND’s two core values of quality and objectivity and who have also recently made exemplary contributions to the RAND community, through new business development or fund-raising initiatives, outstanding outreach and dissemination efforts, or effective participation in internal activities aimed at improving the efficiency of our research environment. Made possible by the generosity of donors to the RAND Policy Circle, the awards provide staff with research time and support to pursue activities related to career development or exploratory research.

ALLISON ELDER, director of Human Resources, for her excellent general leadership of the Human Resources department, which has facilitated the growth and diversification of RAND, and in particular her contributions to the design and execution of the yearlong review of RAND’s benefits program.

SUSAN GATES, senior economist, quality assurance coordinator for the RAND Institute for Civil Justice, and Pardee RAND Graduate School Professor of Economics, for her creative leadership of the Kauffman-RAND Institute for Entrepreneurship Public Policy, her numerous contributions to the Pardee RAND Graduate School, and her notable efforts to strengthen quality assurance at RAND.

JENNIFER GOULD, director of Outreach, for designing and implementing strategies to increase RAND’s visibility as a nonprofit organization, and expanding the reach of RAND’s research and expertise to philanthropic and other important audiences by reconceiving and making substantial strategic improvements to the RAND Policy Forum and Distinguished Speaker event series.

SHERRILL LINGEL, engineer, for her multiple analytical contributions on a wide range of defense issues, ranging from strengthening intelligence, surveillance, and reconnaissance capabilities to improving aircraft survivability; and for her research on the role of homeland security in protecting U.S. coastal waters.

SUSAN GATES, senior economist, quality assurance coordinator for the RAND Institute for Civil Justice, and Pardee RAND Graduate School Professor of Economics, for her creative leadership of the Kauffman-RAND Institute for Entrepreneurship Public Policy, her numerous contributions to the Pardee RAND Graduate School, and her notable efforts to strengthen quality assurance at RAND.

JENNIFER GOULD, director of Outreach, for designing and implementing strategies to increase RAND’s visibility as a nonprofit organization, and expanding the reach of RAND’s research and expertise to philanthropic and other important audiences by reconceiving and making substantial strategic improvements to the RAND Policy Forum and Distinguished Speaker event series.

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SUSAN GATES, senior economist, quality assurance coordinator for the RAND Institute for Civil Justice, and Pardee RAND Graduate School Professor of Economics, for her creative leadership of the Kauffman-RAND Institute for Entrepreneurship Public Policy, her numerous contributions to the Pardee RAND Graduate School, and her notable efforts to strengthen quality assurance at RAND.

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1958

Reconnaissance Satellite Systems > Mert Davies and Amrom Katz designed components of the first successful U.S. satellite imagery reconnaissance system. At their recommendation, CORONA satellites took pictures of military targets and returned the exposed film back to Earth in reinforced capsules. By eliminating the guesswork regarding military arsenals of nations around the world, the CORONA satellite program served as a deterrent against the outbreak of war.
Since 1970, RAND has operated an innovative and respected graduate school specializing in public policy analysis. In 2003, the school received a generous $10 million pledge from RAND alumnus Frederick S. Pardee and was renamed the Pardee RAND Graduate School (PRGS). Today, PRGS is the world’s leading producer of Ph.D.’s in public policy analysis.

PRGS takes advantage of its unique location at RAND’s headquarters campus in Santa Monica, California, by combining advanced course work in economics, quantitative methods, and social science methods, including fields RAND helped pioneer (such as operations research and cost-benefit analysis), with on-the-job training that provides students an opportunity to work with RAND researchers and clients on interdisciplinary teams. The program is designed to train creative thinkers to play important roles in solving major problems facing the nation and the world. In addition to engaging in rigorous course work, students work alongside top RAND researchers on a broad range of projects as part of their training. This powerful synergy of theory and practice is unique in American education.

PRGS currently enrolls approximately 100 Ph.D. students from more than 20 countries around the world: Almost 30 percent are from outside the United States. Our students’ prior fields of study represent a broad range of disciplines, including economics, social science, physical and natural science, engineering, law, and medicine.

The following select student profiles and their 2007 research projects provide a snapshot of the graduate school’s diversity and global perspective.
Before coming to PRGS, **Brooke Stearns** was a program officer with Relief International and completed a master’s degree at the Institut d’Études Politiques de Paris (Sciences Po), where she was a Rotary World Peace Scholar. Two of her recent projects include developing and conducting a simulation exercise on failed states for the World Bank and doing a cost analysis on providing antiretroviral therapy treatment in Uganda and South Africa. Brooke coauthored the 2007 RAND monograph *Making Liberia Safe: Transformation of the National Security Sector*.

**Arkadipta Ghosh** is a fifth-year PRGS fellow from India. He recently completed an M.Phil. in economics from the Centre for Economic Studies and Planning at Jawaharlal Nehru University, where he also received his M.A. in economics. One of his recent RAND projects examines the consequences of India’s extensive land reforms. Arka is looking at the impact of land reforms on women’s height, a long-term measurement of health, and also on women’s schooling in rural India. He has learned that land reforms lead to significant improvements in health and well-being for those who experience the benefits of such reforms during childhood and adolescence.

**Emre Erkut**’s interest in the economics and governance of organizations is fed by his decade-long career in investment banking, securities research, and management consulting, and formalized by master’s-level training in business administration at Purdue. Emre is a graduate of Bogazici University in Turkey. One of his recent projects is on mass litigation. The project analyzes dozens of mass litigation episodes in the United States using economics and social science perspectives and methods. The goal is to develop an empirically grounded scholarly understanding of how mass litigations arise, develop, and conclude. The project not only covers personal injury litigations (mass tort) but also emphasizes the concept of “mass litigation” to include environmental, securities, and other litigations of mass nature.

**Sara Hajiamiri** completed an M.Sc. in engineering and policy analysis at Delft University of Technology, where her thesis dealt with integrated water management. Her projects at RAND are wide-ranging, including U.S. fuel economy standards and automobile pricing, water efficiency in Colorado, Iran’s energy sector, Mexican immigration and assimilation, and economic development in the areas affected by Hurricane Katrina. She coauthored the 2008 technical report *Estimating the Value of Water-Use Efficiency in the Intermountain West*.

**Jianhui Hu** completed her M.P.P. at Pepperdine University while working full-time as program research coordinator in a health care center for the elderly. She worked for five years in the tax bureau for Yunnan Province in China, where she was named an advanced public servant in the field of policy research. On one of her recent RAND projects, Jianhui helped develop pandemic influenza tabletop exercises in Southeast Asia. She coauthored the 2007 *Health Affairs* article “The Risk-Benefit Balance in the United States: Who Decides?”

**Stephen (Jamie) Gayton** earned his M.B.A. from the MIT Sloan School of Management. He is a lieutenant colonel in the United States Army. Jamie recently completed a 12-month tour of duty in Iraq, where he served as a battalion commander in the 3rd Infantry Division, which is responsible for reconstruction and essential services operations. Jamie and his battalion oversaw $300 million in reconstruction activities including sewer, water, electricity, sanitation, security, health, and education projects. Jamie also pioneered a media engagement strategy and an information campaign for neighborhood and district leaders. His innovations significantly improved the life for millions of Iraqis and helped increase security within eastern Baghdad.

To learn more about RAND's other educational opportunities and fellowships, please visit http://www.rand.org/about/edu_op/
Donor Support Helps RAND Stay Ahead of the Curve

For 60 years, the RAND Corporation has helped shape sound public policy by staying ahead of the curve—identifying emerging policy challenges early on and formulating effective, practical solutions of enduring value.

Philanthropic support is vital to RAND’s ability to best serve the public interest. Through generous contributions of financial resources and the volunteer leadership of distinguished advisors, RAND is able to

- support research inquiries into critical policy issues that are too complex, too controversial, or too little understood for conventional client-sponsored research; and
- compete in the bustling marketplace for talent to attract the world’s top minds and emerging stars to help us address complex matters for the public good.

RAND is grateful to the many individuals, corporations, and foundations that make gifts of financial support and lend us their time, wisdom, and expertise as members of RAND advisory boards and the RAND Policy Circle. The confidence and generosity of philanthropic supporters affords RAND invaluable flexibility as we pursue our mission to make a difference and stay ahead of the curve on the most pressing issues of our time and beyond.

1966

Viet Cong Motivation and Morale > In the mid-1960s, RAND research teams studied the “motivation and morale” among cadres of Viet Cong, the force opposed to the South Vietnam government. Some 2,000 interviews were conducted with Viet Cong prisoners and defectors. The resulting studies identified repression as a vital part of the overall enemy effort to erode South Vietnam government strength.
The Future of Cable Television > A RAND study concluded that prospects were bright for the cable television industry under liberalized FCC rules and would not have a detrimental effect on the markets for commercial and noncommercial broadcasting. The work had an important effect on subsequent FCC rulings and permitted the expansion of the cable industry as we know it today.

Mapping the Planets > Mert Davies became part of the Imaging Science Experimenter Team that specified the image-making equipment and strategies used on the Mars-Orbiter, Venus-Mercury, and Jupiter-Saturn-Uranus-Neptune space missions.
Contributions at Work

Supporting Talent

President’s Awards. Philanthropic support funds exploratory research and professional development activities of outstanding RAND staff who have made important sustained contributions to RAND and have gone beyond the call of duty in their efforts. (See page 23 for the list of 2007 President’s Award recipients.)

Distinguished Chairs. Chairs are held by outstanding researchers recognized as world-class among peers. The research and leadership activities of chair holders are made possible by philanthropic support.

Investing in Innovation

RAND President’s Fund. Unrestricted donations to RAND, combined with fees earned from project work, provide seed money for promising areas of policy research that are often too complex or too little understood to garner support from conventional clients. Some of RAND’s most visionary research has been made possible as a result of private donations supporting the RAND President’s Fund. In 2007, donor-supported research

• helped state and local officials in post-Katrina Louisiana and Mississippi plan for the return of evacuees, in areas such as housing and education;
• informed decisionmakers about choices affecting America’s volunteer armed forces;
• supported the development of innovative research methods, and the application of those methods to health care markets; and
• improved the ability of responders to protect the public against terrorist threats, and helped the public better understand those threats.

1972

Pioneering Work on Terrorism » After the massacres at the Munich Olympics and Lydda Airport, RAND proposed a research agenda on international terrorism that placed RAND at the forefront of a new and increasingly important area of research. RAND led the creation of an international network of scholars and government officials responsible for dealing with terrorism.
Improving U.S.-China Relations. In 2007, RAND established the Tang Institute for U.S.-China Relations with a $2 million gift from the Cyrus Chung Ying Tang Foundation matched by RAND to create a permanently endowed fund for excellence. The aim of the Tang Institute is to improve policy discussions that shape relations between the United States and China; it will support research and intellectual exchange on a range of critical issues such as currency, labor and trade, direct foreign investment, and the perceptions that each national holds about the other. Cyrus Tang was born in China and came to America in 1950, where he founded and currently leads an international manufacturing and distribution company. Tang has served on the board of advisors of the RAND Center for Asia Pacific Policy for nearly a decade and has contributed significant philanthropic support to RAND, culminating in the most recent 2007 gift.

Exploring the Benefits of Alternative Medicine. A $2 million gift from the Samueli Institute will help RAND deepen the policy community’s understanding of alternative medicine’s benefits. The gift—together with a match by RAND—will create a permanently endowed fund for excellence to support independent policy research regarding integrative medicine and complementary and alternative medicine (CAM). The Samueli Institute Fund for Policy Studies in Integrative Medicine will support RAND’s capacity to deliver empirical research that can shape the health care system by identifying and evaluating CAM and integrative medicine programs and policies and their contribution to health and healing.

Investing in Ideas. In 2007, Anne and James F. Rothenberg donated more than $2 million to the President’s Fund and in support of scholarships to the Pardee RAND Graduate School. Mr. Rothenberg, Chairman and Principal Executive Officer of Capital Research and Management Company, is a RAND trustee, former member of the PRGS Board of Governors, and a leading figure in the investment world. The Rothenbergs’ generous support will foster innovative research inquiries into pressing policy challenges and help graduate fellows in their research pursuits. Mr. Rothenberg asserts, “I support RAND because I believe the institution is situated to address the long-term challenges we face as a nation and in the global community.”
Racial Difference in Income

In a series of studies starting in the mid-1970s, James P. Smith and Finis Welch examined the main drivers of the changing economic status of black Americans from the end of the American Civil War to contemporary America. They report a slowing and unevenly narrowing of the racial gap in incomes. The principal factor that produced the periods of advancement were linked to periods where the schooling gaps between black and white Americans closed and the relative quality of black schools improved. These remain among the most cited references on the economics of race in America.
The World's Largest Permeable Dam

A five-year joint effort between RAND and the Dutch government led to the creation of the world's largest permeable dam—a storm-surge barrier with large movable gates—which balanced the environmental, economic, and safety concerns of the Netherlands.

Family Life in Developing Countries

Beginning with the Malaysian Family Life Survey, RAND designed, fielded, and analyzed a series of household surveys in developing countries: in Malaysia, Indonesia, Guatemala, and Bangladesh. Unique for developing countries, the rich databases—which are placed in the public domain—track demographic, social, health, and economic information at the individual, household, and community levels.
Determining Characteristics of Career Criminals

Multiple RAND studies changed the way people think about "career criminals." Researchers confirmed that a small proportion of offenders commit a large percentage of crime, making career criminals a national priority, fostering new legislation and focusing resources.

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Shortly after President Reagan announced the Strategic Defense Initiative, RAND was asked to provide the first comprehensive assessment of how a technically successful defense against ballistic missiles would affect deterrence and strategic ability, the security interests of our allies, and arms control.

Ballistic Missile Basing Alternatives
Project AIR FORCE research on the comparative utility of active defenses and various basing options for the proposed MX ballistic missile provided major input to the President’s Commission on Strategic Force Modernization (the Scowcroft Commission).

Gifts were given in memory of the following
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Gifts were given in honor of the following
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1982
Ballistic Missile Basing Alternatives
Project AIR FORCE research on the comparative utility of active defenses and various basing options for the proposed MX ballistic missile provided major input to the President’s Commission on Strategic Force Modernization (the Scowcroft Commission).

1984
Strategic Defense and Deterrence
Shortly after President Reagan announced the Strategic Defense Initiative, RAND was asked to provide the first comprehensive assessment of how a technically successful defense against ballistic missiles would affect deterrence and strategic ability, the security interests of our allies, and arms control.
Costs of Asbestos Litigation

RAND published findings from the first-ever study to examine the costs and compensation paid for asbestos personal injury claims. The study showed that claimants received only 37 cents of every dollar spent on asbestos litigation, with the rest going to defense and plaintiff attorneys’ fees and other expenses.
Chlorofluorocarbons > RAND performed the economic analysis that, when coupled with a National Oceanic and Atmospheric Administration (NOAA) chemical model of the atmosphere, ultimately provided the policy-analytic basis for the global ban on the production of substances that deplete stratospheric ozone—mainly chlorofluorocarbons (CFCs) and Halons.

Preventing Teenage Smoking and Drug Use > The most widely used science-based drug prevention program in the country, reaching more than 1.5 million middle school children a year, was developed at RAND. Project ALERT (Adolescent Experiences in Resistance Training) is a nationally recognized substance abuse program that gives students insight, understanding, and actual skills for resisting substance abuse.
Monitoring the Results of Medical Care

The Medical Outcomes Study (MOS) was the first large-scale attempt to measure medical outcomes in terms of how patients feel, function, and perform in their natural environment. In conducting the study, RAND developed a number of brief screening instruments, including the RAND 36-Item Health Survey.
At the request of the Secretary of Defense, RAND conducted research to help formulate an executive order ending the ban on military service of homosexuals. The study found that a policy that ends discrimination based on sexual orientation could be implemented in a practical and realistic manner.

**1994**

Controlling Cocaine

The RAND study on controlling cocaine provided a powerful argument for increasing U.S. drug treatment programs. It is often cited in the debate on the effectiveness of the “war on drugs.”

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The Number of Troops Needed to Stabilize a Country

The most well-known study on the arithmetic of stability operations is the RAND paper “Force Requirements in Stability Operations.” RAND calculated the troop levels required to stabilize both entire countries and individual cities, and explored the implications of those numbers for deployment, rotation, readiness, and personnel retention.
Immigration > James P. Smith led the National Academy of Sciences panel, whose report, The New Americans, remains the most cited source in the immigration debate. That report showed the impact of immigration over the next 50 years on the demographic, economic, and fiscal well-being of the United States.

1996

Diverting Children from a Life of Crime

This study measures for the first time the cost-effectiveness of intervention strategies for youth at risk of pursuing criminal careers. Three types of interventions—cash and other graduation incentives, parent training, and supervision of delinquent teens—appear more cost-effective in reducing crime than California’s “three-strikes” law.
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1998

NATO Expansion  > RAND experts on Europe and the Soviet Union recommended expanding NATO to include, initially, Poland, the Czech Republic, Slovakia, and Hungary. Their strategy involved a gradual expansion, in addition to confidence-building measures and assurances for Russia and other Eastern European countries who were not initial members. RAND’s ideas and analyses were taken up within the State Department and became the foundation for the decision to move ahead with NATO expansion.
These are the advisory boards for RAND’s federally funded research and development centers (FFRDCs).

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1999
HIV Cost and Services Utilization Study (HCSUS) > HCSUS is the first comprehensive U.S. survey of health care use among a nationally representative sample of persons in care for HIV. The study provided unique information on the costs of HIV care, barriers to access, and effects of HIV on quality of life, productivity, and family life.

2000
The Societal Promise of Improving Care for Depression > RAND evaluated how two modest, practical programs in typical managed care settings could improve the quality of depression care that patients received and increase the amount of time that patients worked. No other quality-improvement program for any health condition in primary care has shown that kind of positive effect on employment. The programs also reduced ethnic disparities in health outcomes, even five years after the programs ended.
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Henry S. Rowen  
1967–1972  
Brent Scowcroft  
Donald W. Seldin, M.D.  
Eleanor B. Sheldon  
1972–1982  

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J. Paul Austin  
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‡ 1982–1992  
Frank R. Collbohm  
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1960–1963  
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2001–2006  
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‡ 1948–1961  
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‡ 1948–1961  
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‡ 1963–1973  
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‡ 1983–1992  
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James C. Gaither  
Christopher B. Galvin  
1994–2000  

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1997–1999  
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‡ 1963–1974  
J. Richard Goldstein  
‡ 1951–1973  
W. Richard Goodwin  
‡ 1972–1982  
Philip L. Graham  
‡ 1961–1963  
Alan Greenspan  
1986–1997  
Caryl P. Haskins  
Lawrence J. Henderson, Jr.  
‡ 1948–1971  
William R. Hewlett  
‡ 1962–1972  
Carla A. Hills  
1983–1987  
Edwin E. Huddleston, Jr.  
John A. Hutcherson  
‡ 1948–1959  
Bruce Karatz  
Charles F. Knight  
1981–1986  
Ernest O. Lawrence  
‡ 1956–1958  
Alfred L. Loomis  
‡ 1948–1957  
Edwin M. McMillan  
‡ 1959–1969  
Soia Mentschikoff  
‡ 1972–1982  
Philip M. Morse  
‡ 1948–1949; 1950–1962  
Philip E. Mosely  
‡ 1951–1961; 1963–1972  
Harvey S. Mudd  
‡ 1949–1955  
Lauris A. Norstad  
‡ 1963–1973  
Amy B. Pascal  
2000–2005  
James A. Perkins  
‡ 1961–1971  
Samuel R. Pierce, Jr.  
‡ 1976–1981  
Thomas P. Pike  
‡ 1971–1976  
Kenneth S. Pitzer  
‡ 1962–1972  
Wesley W. Posvar  
‡ 1973–1983  
Don K. Price  
‡ 1961–1971  
Condoleezza Rice  
1991–1997  

Gustave H. Shubert  
1973–1989  
Dennis Stanfill  
1978–1988  
Charles H. Townes  
1965–1970  
George H. Weyerhaeuser  
1975–1985  
John White  
1973–1977  
James Q. Wilson  
1994–2004  
Charles Zwick  

2001

Education Vouchers and Charter Schools

Researchers in RAND Education conducted the most comprehensive analysis of the effects of vouchers and charter schools on academic achievement, school choice, access, integration, and civic socialization. Their report, Rhetoric Versus Reality: What We Know and What We Need to Know About Vouchers and Charter Schools, earned respect from all sides of the debate.
As Operation Iraqi Freedom transitioned into the U.S. occupation of Iraq, RAND began a new line of inquiry on lessons learned from previous nation-building experiences. The first volume in the series, America’s Role in Nation-Building, informed the Senate debate in September during the discussion on President Bush’s emergency supplemental request for Iraq, though few of the book’s recommendations were heeded.
## Clients and Grantors

### State and Local Governments

- State of California
- Air Resources Board
- California Children & Families Commission
- California Commission on the Fair Administration of Justice
- California Legislative Analyst’s Office
- California Policy Research Center
- Commission on Health and Safety and Worker’s Compensation
- Department of Industrial Relations
- Department of Social Services
- Welfare Policy Research Projects
- California City and County Offices
  - City of Los Angeles
  - Los Angeles City Council
  - Los Angeles County
  - Los Angeles County Probation Department
  - Los Angeles Unified School District
  - Mental Health Services
  - City of San Diego
  - County of San Mateo, Aging and Adult Services
  - Santa Barbara High School District
  - Ventura County
  - Western Riverside County Regional Conservation Authority
- City of Cincinnati
- Commonwealth of Pennsylvania
- Allegheny County Department of Human Services
- Allegheny Intermediate Unit
- Carnegie Library of Pittsburgh
- Pittsburgh Public Schools
- District of Columbia
- Department of Health
- Executive Office of the Mayor
- State of Louisiana
- Louisiana Recovery Authority
- State of Massachusetts
- Federal Reserve Bank of Boston
- State of New York
- Federal Reserve Bank of New York
- New York City
- Department of Education
- State of North Carolina
- Board of Education, Charlotte-Mecklenburg Schools
- State of Tennessee
- Advisory Committee on Intergovernmental Relations
- State of Texas
- Department of Transportation

### Colleges and Universities

- American College of Physicians
- Brandeis University
- Brunel University
- Health Economics Research Group
- California Policy Research Center, University of California
- Carnegie Mellon University
- College Voor Zorgverzekeringen
- Columbia University Medical Center
- Dana Farber Cancer Institute
- Drew University
- Georgetown University
- Harvard University
- The Johns Hopkins University
- Louisiana State University
- Agricultural and Mechanical College
- Makene University, Uganda
- National University of Singapore
- Northwestern University
- Ohio State University
- Oregon Health and Science University
- Peking University
- Pennsylvania State Education Association
- Pennsylvania State University
- Rutgers, The State University of New Jersey
- Tilburg University, CentERdata
- University of California, Berkeley
- University of California, Davis
- University of California, Los Angeles
- University of California, San Diego
- University College, Dublin
- University of Florida
- University of Illinois at Chicago
- University of Manchester, UK
- University of Maryland
- University of Medicine and Dentistry of New Jersey
- University of Michigan
- University of North Carolina
- University of Pennsylvania
- University of Pittsburgh
- University of Rochester
- University of Singapore
- University of Southern California
- University of Texas System
- University of Washington
- Vanderbilt University

### Foundations

- Amgen Foundation
- Annenberg Foundation
- Arthritis Research Campaign
- BEST Foundation
- California Community Foundation
- California Endowment
- California HealthCare Foundation
- Carnegie Corporation of New York
- Annie E. Casey Foundation
- Casey Family Programs
- Commonwealth Fund
- Communities Foundation of Texas
- Community Foundation, National Capital Region
- Dartmouth Institute for Security Technology Studies
- Nelson B. Delavan Foundation
- John E. Fetzer Institute, Inc.
- Flora Family Foundation
- The Ford Foundation

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**Cost and Quality Effects of Computerizing Medical Records**

RAND conducted the first comprehensive study to quantify the costs and potential health and cost benefits of health information technology. The analysis identified dramatic efficiency savings, greatly increased safety, and identified health benefits. Findings from the study have been cited in congressional legislation and are playing a prominent role in national health care reform proposals.
Replacing Aerial Refueling Tankers: An Analysis of Alternatives (AoA)

Aerial refueling tankers (so-called “gas stations in the sky”) play a critical role in U.S. military and national security strategy, enabling the United States to effectively deploy air power in worldwide operations, such as over Iraq and Afghanistan, and to operate effective homeland defense air patrols.

Crafting a Complex Relationship with China

Several publications added new insights to inform policymakers’ understanding of the evolving superpower—One study examined broad historical trends in Asian geopolitics focused on seizing opportunities offered by China’s growing economy, and warned against taking a Cold War-era approach that overemphasizes military competition. Several other studies examined the most probable flashpoint for conflict between the U.S. and China—the relationship between mainland China and Taiwan.
Financial Report

Report of Independent Auditors

To the Board of Trustees,
The RAND Corporation

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and changes in net assets, and cash flows present fairly, in all material respects, the financial position of The RAND Corporation and its subsidiaries at September 30, 2007, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The RAND Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The RAND Corporation’s September 24, 2006 consolidated financial statements, and in our report dated January 29, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 1, 2008
The RAND Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

with summarized financial information for the year ended September 24, 2006

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$36,174</td>
<td>$27,080</td>
</tr>
<tr>
<td>Receivables, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed and unbilled costs and fees</td>
<td>37,555</td>
<td>40,968</td>
</tr>
<tr>
<td>Other receivables</td>
<td>4,424</td>
<td>5,755</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>4,387</td>
<td>4,729</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>82,540</strong></td>
<td><strong>78,532</strong></td>
</tr>
<tr>
<td>Property and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>1,334</td>
<td>1,334</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>106,655</td>
<td>105,965</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>15,007</td>
<td>14,592</td>
</tr>
<tr>
<td>Equipment</td>
<td>44,626</td>
<td>42,982</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>2,077</td>
<td>1,143</td>
</tr>
<tr>
<td><strong>Net property and equipment</strong></td>
<td><strong>131,185</strong></td>
<td><strong>134,129</strong></td>
</tr>
<tr>
<td>Long-term investments</td>
<td>205,621</td>
<td>186,261</td>
</tr>
<tr>
<td>Building project fund investments</td>
<td>3,600</td>
<td>5,759</td>
</tr>
<tr>
<td>Other assets</td>
<td>7,475</td>
<td>6,215</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$430,421</strong></td>
<td><strong>$410,896</strong></td>
</tr>
</tbody>
</table>

|                     |                    |                    |
| **LIABILITIES AND NET ASSETS** |                    |                    |
| Current liabilities |                    |                    |
| Accounts payable and other liabilities | $20,892 | $27,839 |
| Unexpended portion of grants and contracts received | 20,152 | 14,724 |
| Accrued compensation and vacation | 14,352 | 14,574 |
| Current portion of long-term debt | 1,870  | 1,785 |
| **Total current liabilities** | **$57,266** | **$58,922** |
| Deferred rent        | 12,776             | 12,951             |
| Accrued postretirement benefit liability | 13,541 | 12,736 |
| Other long-term liabilities | 3,625  | —                 |
| Long-term debt, less current portion | 127,105 | 125,971 |
| **Total liabilities** | **$214,313**       | **$210,580**       |
| Commitments and contingencies (Note 8) |            |                    |
| Net assets           |                    |                    |
| Unrestricted         |                    |                    |
| Operations           | —                  | —                  |
| Designated for investment | 142,893 | 134,079 |
| Designated for special use | 11,411  | 9,375             |
| **Total unrestricted** | **154,304**       | **143,454**       |
| Temporarily restricted | 23,638  | 21,670           |
| Permanently restricted | 38,166  | 35,192            |
| **Total net assets** | **$216,108**       | **$200,316**       |
| **Total liabilities and net assets** | **$430,421** | **$410,896** |

The accompanying notes are an integral part of these consolidated financial statements.
The RAND Corporation

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

with summarized financial information for the year ended September 24, 2006

(in thousands)

<table>
<thead>
<tr>
<th>For the Years Ended</th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted Net Assets</strong></td>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Operations</strong></td>
<td><strong>Designated</strong></td>
<td><strong>Unrestricted</strong></td>
</tr>
<tr>
<td><strong>REVENUE, GAINS, AND OTHER SUPPORT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts and grants</td>
<td>$223,290</td>
<td>$223,290</td>
</tr>
<tr>
<td>Fees</td>
<td>8,414</td>
<td>8,414</td>
</tr>
<tr>
<td>Income on investments, net</td>
<td>6,086</td>
<td>6,086</td>
</tr>
<tr>
<td>Net realized gains on investments</td>
<td>6,194</td>
<td>6,194</td>
</tr>
<tr>
<td>Net unrealized gains on investments</td>
<td>6,788</td>
<td>6,788</td>
</tr>
<tr>
<td>Contributions</td>
<td>7,816</td>
<td>7,816</td>
</tr>
<tr>
<td>Other investment income</td>
<td>320</td>
<td>320</td>
</tr>
<tr>
<td>Transfer of designated net assets to operations</td>
<td>5,820</td>
<td>(5,820)</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>6,984</td>
<td>6,984</td>
</tr>
<tr>
<td><strong>Total revenues, gains, and other support</strong></td>
<td>252,644</td>
<td>13,248</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>194,605</td>
<td>194,605</td>
</tr>
<tr>
<td>Management and general</td>
<td>56,432</td>
<td>56,432</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>251,037</td>
<td>251,037</td>
</tr>
<tr>
<td><strong>Change in net assets before other items</strong></td>
<td>1,607</td>
<td>13,248</td>
</tr>
<tr>
<td><strong>Other items:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in fair value of derivative instruments (Note 7)</td>
<td>(3,625)</td>
<td>(3,625)</td>
</tr>
<tr>
<td>Adjustment to Postretirement Benefit Liability (other than net periodic postretirement benefit cost) (Note 6)</td>
<td>(380)</td>
<td>(380)</td>
</tr>
<tr>
<td>Noncash net asset transfer (Note 2)</td>
<td>2,398</td>
<td>(2,398)</td>
</tr>
<tr>
<td>Remediation related to land sale (Note 8)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>—</td>
<td>10,850</td>
</tr>
<tr>
<td><strong>Net assets at beginning of year</strong></td>
<td>—</td>
<td>143,454</td>
</tr>
<tr>
<td><strong>Adjustment to beginning net assets (Note 2)</strong></td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$154,304</td>
<td>$154,304</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
The RAND Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

with summarized financial information for the year ended September 24, 2006

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended September 30, 2007</th>
<th>For the Year Ended September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ 15,792</td>
<td>$ 9,173</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>7,327</td>
<td>8,237</td>
</tr>
<tr>
<td>Loss on debt extinguishment</td>
<td>2,077</td>
<td>—</td>
</tr>
<tr>
<td>Noncash termination benefits</td>
<td>—</td>
<td>1,536</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>(249)</td>
<td>(188)</td>
</tr>
<tr>
<td>Loss on disposition of property and equipment</td>
<td>136</td>
<td>268</td>
</tr>
<tr>
<td>Permanently restricted contribution revenue</td>
<td>(2,164)</td>
<td>(1,629)</td>
</tr>
<tr>
<td>Net realized/unrealized gains</td>
<td>(15,741)</td>
<td>(10,548)</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in billed and unbilled costs and fees</td>
<td>3,413</td>
<td>(1,898)</td>
</tr>
<tr>
<td>Decrease (increase) in other receivables</td>
<td>923</td>
<td>(2,342)</td>
</tr>
<tr>
<td>Decrease (increase) in prepaid and other current assets</td>
<td>342</td>
<td>(824)</td>
</tr>
<tr>
<td>(Increase) decrease in other long-term assets</td>
<td>(1,148)</td>
<td>3,686</td>
</tr>
<tr>
<td>Decrease in accounts payable and other liabilities</td>
<td>(6,486)</td>
<td>(4,031)</td>
</tr>
<tr>
<td>Increase (decrease) in unexpended portion of grants and contracts received</td>
<td>5,428</td>
<td>(3,312)</td>
</tr>
<tr>
<td>(Decrease) increase in accrued compensation and vacation</td>
<td>(222)</td>
<td>1,287</td>
</tr>
<tr>
<td>(Decrease) increase in deferred rent</td>
<td>(175)</td>
<td>3,057</td>
</tr>
<tr>
<td>Increase in postretirement benefit liability</td>
<td>805</td>
<td>623</td>
</tr>
<tr>
<td>Increase in other long-term liabilities</td>
<td>3,625</td>
<td>—</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>13,683</td>
<td>3,095</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(54,835)</td>
<td>(40,570)</td>
</tr>
<tr>
<td>Sales of investments</td>
<td>51,192</td>
<td>37,790</td>
</tr>
<tr>
<td>Proceeds from sales of project fund investments</td>
<td>2,159</td>
<td>16,485</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(4,892)</td>
<td>(17,313)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(6,376)</td>
<td>(3,608)</td>
</tr>
<tr>
<td>Cash flows from financing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits to bond escrow</td>
<td>(33,241)</td>
<td>—</td>
</tr>
<tr>
<td>Proceeds from bond issuance</td>
<td>34,975</td>
<td>—</td>
</tr>
<tr>
<td>Payments of bond issuance costs</td>
<td>(826)</td>
<td>—</td>
</tr>
<tr>
<td>Principal payments on long-term debt</td>
<td>(1,785)</td>
<td>(2,415)</td>
</tr>
<tr>
<td>Contributions restricted for purchase of property and equipment</td>
<td>50</td>
<td>73</td>
</tr>
<tr>
<td>Permanently restricted contributions received in cash</td>
<td>2,522</td>
<td>3,629</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>1,695</td>
<td>1,287</td>
</tr>
<tr>
<td>Effect of currency exchange rate changes on cash</td>
<td>92</td>
<td>116</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>9,094</td>
<td>890</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>27,080</td>
<td>26,190</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>$ 36,174</td>
<td>$ 27,080</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
1. Corporate Organization:
RAND Corporation (RAND) is a nonprofit, tax-exempt corporation performing research and analysis funded by contracts, grants, and contributions. In addition, RAND conducts educational programs that provide graduate training.

The consolidated financial statements of RAND include the accounts of a controlled affiliate: RAND Europe, a foundation domiciled in The Netherlands (see also Note 11). All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies:

Fiscal Year. RAND's fiscal reporting for both financial statement and tax purposes is based on a 52- or 53-week year ending on the Sunday closest to September 30. The fiscal years include operations for a 53-week period in 2007 and a 52-week period in 2006.

Basis of Presentation. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide, "Not-for-Profit Organizations."

Net assets are classified into three categories according to donor-imposed restrictions, as follows:

- **Permanently restricted**—Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of RAND. Generally, the donors of these assets permit RAND to use all or part of the investment return on these assets.

- **Temporarily restricted**—Net assets whose use by RAND is subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of RAND.

- **Unrestricted**—Net assets that are not subject to donor-imposed stipulations. Unrestricted assets may be designated for specific purposes by action of the Board of Trustees.

The financial statements include certain prior-year summarized comparative information in total but not by net asset category. Such prior-year information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with RAND's financial statements for the year ended September 24, 2006, from which the summarized financial information was derived.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues, expenses, or other changes in net assets during the reporting period. Actual results could differ from these estimates.

Revenue and Expense Recognition. Contract and grant revenues are recognized as the related services are performed in accordance with the terms of the contract or grant or using the percentage of completion method.

Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate category of net assets. Donor-restricted contributions that are received and either spent or deemed spent within the same fiscal year are reported as unrestricted revenue.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations or of board designations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets.

Concentrations of Risk. Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk.
RAND derived 77 percent and 79 percent of its research revenues in fiscal years 2007 and 2006, respectively, from contracts, grants, and fees with agencies of the federal government.

Cash and Cash Equivalents. RAND considers all highly liquid instruments purchased with a maturity of three months or less, whose purpose is not restricted, to be cash equivalents.

Property and Equipment. Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives of the assets: 5 to 40 years for building and improvements and 3 to 20 years for equipment. Leasehold improvements are amortized by the straight-line method over the shorter of the estimated useful lives of the assets or the term of the lease. Construction in progress will be amortized over the estimated useful lives of the respective assets when they are ready for their intended use. Certain computer systems and software are internally developed. Costs associated with the application development stage are capitalized and depreciated over the useful life of the system or software. All other costs are expensed as incurred. Included in Equipment on the Consolidated Statements of Financial Position was $7,000,000 and $6,800,000 of computer systems and software at September 30, 2007, and September 24, 2006, respectively.

When assets are retired, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations. As of September 30, 2007, and September 24, 2006, approximately $14,154,000 and $11,593,000, respectively, of fully depreciated assets were in use.

Investments. All investments of permanently restricted net assets and unrestricted net assets board designated for investment are pooled in a long-term investment fund. Income on pooled investments is allocated to the general use or individual special use funds based on the average balance for each fund (see Note 9).

The percentage of board-designated funds distributed for unrestricted use was 4.5 percent and 4.0 percent in fiscal years 2007 and 2006, respectively, based on the average of the trailing twelve-quarter market values of the unrestricted funds. The total distribution was $5,820,000 and $4,754,000 for fiscal years 2007 and 2006, respectively.

Gains and losses on investments and investment income are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Noncash Net Asset Transfers. Primarily due to RAND’s adoption of SAB 108 (see New Accounting Pronouncements in Note 2), a transfer of board-designated net assets (noncash) to operations totaling $3,500,000 was required for fiscal year 2006 to bring ending unrestricted net assets from operations to zero. An additional noncash transfer of $2,398,000 was required in fiscal year 2007 due to the change in value of derivative instruments (see Note 7) and the adoption of FASB 158 (see New Accounting Pronouncements in Note 2). These transfers will be reversed in future years as unrestricted net assets from operations become available.

Building Project Fund Investments. The net proceeds from the tax-exempt bond issuance (see Note 7) were invested under a collateralized flexible draw investment agent that expired on October 1, 2005. The balance has since been invested in short-term AAA-rated 30-day commercial paper and/or a money market fund.

These proceeds are subject to arbitrage rebate and yield restriction rules under the Internal Revenue Code in which excess earnings on tax-exempt bond proceeds must be rebated to the federal government if the yield on the investments exceeds the effective yield on the related tax-exempt bonds. The liability, if any, is accrued on an annual basis and must be remitted to the Internal Revenue Service after the end of every fifth bond year and upon full retirement of the bonds. A yield reduction liability of $37,000 and $115,000 was included in Accounts payable and other liabilities in the Consolidated Statements of Financial Position as of September 30, 2007, and September 24, 2006, respectively.

Other investment income includes interest earned on these investments, including the change in the yield restriction liability, totaling $320,000 and $472,000 for fiscal years ended September 30, 2007, and September 24, 2006, respectively.
Bond Issuance Costs. Bond issue costs represent expenses incurred in connection with issuing RAND’s revenue bonds (see Note 7) and are amortized over the term of the related bond issue on a straight-line basis, which approximates the effective interest method. Unamortized costs were $3,149,000 and $3,088,000 at September 30, 2007, and September 24, 2006, respectively, and are included in Other assets on the Consolidated Statements of Financial Position.

Income Tax Status. RAND is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding California provisions and has qualified for the 50 percent charitable contributions limitation. RAND has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated a “publicly supported” organization under Section 170(b)(1)(A)(vi) of the Internal Revenue Code.

Foreign Currency Translation. The assets and liabilities of RAND Europe are translated at year-end exchange rates; transactions are translated at the average exchange rates during the year. The effects from the translation of foreign currencies in the current and prior year are cumulatively immaterial to the consolidated financial statements.

Supplemental Cash Flow Information. Cash paid for interest was $5,805,000 in fiscal year 2007 and $4,211,000 in fiscal year 2006.

New Accounting Pronouncements. In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (FASB 158). For not-for-profit employers, FASB 158 requires an entity to (i) recognize a defined benefit postretirement plan’s funded status—measured as the difference between the fair value of plan assets and the benefit obligation—in its statement of financial position and (ii) recognize as a separate line item within changes in unrestricted net assets—apart from expenses—prior service costs or credits and actuarial gains and losses that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement Nos. 87 and 106. In addition, as FASB 158 does not permit retrospective application, the cumulative unrecognized prior service costs or credits and actuarial gains and losses as of the end of the year are recognized as a transition adjustment in the year of adoption. RAND adopted FASB 158 as of its fiscal year ended 2007. See also Note 6.

In September 2006, the U.S. Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), which provides interpretative guidance on the consideration of the effects of prior-year misstatements in quantifying current-year misstatements for the purpose of a materiality assessment. SAB 108 requires companies to apply its provisions either by (i) restating prior financial statements or (ii) recording the cumulative effect as adjustments to the carrying values of assets and liabilities as of the beginning of the year of adoption with an offsetting adjustment recorded to the opening balance of Unrestricted Net Assets. The cumulative effect method of initially applying SAB 108 is permitted if the amount of the adjustment would have been material to the annual financial statements for the year preceding the adoption of SAB 108 or if the effect of recording the adjustment in the year of adoption would be material to those financial statements.

RAND had misstatements in periods prior to fiscal year 2006 related to lease accounting and deferred compensation. These misstatements were not material to any individual prior period, but the correction of such errors during fiscal year 2006 on a cumulative basis would have been material to the RAND fiscal year 2006 consolidated financial statements. As such, RAND adopted SAB 108 during fiscal year 2006 in accordance with (ii) above using the cumulative effect method and adjusted the carrying values of its assets and liabilities with an offsetting adjustment to Unrestricted Net Assets as of September 26, 2005. Rent, depreciation, and compensation expenses were understated by $5,456,000 (cumulatively) in years prior to fiscal year 2006 so, as of September 26, 2005, RAND recorded a $6,962,000 increase in leasehold improvements, a $2,024,000 increase in accumulated depreciation, a $9,894,000 increase in deferred rent, a $500,000 increase in deferred compensation, and a $5,456,000 decrease to unrestricted net assets to correct these misstatements.
3. Billed and Unbilled Costs and Fees:

The following table summarizes the components of billed and unbilled contract and grant costs and fees (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government agencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>$10,607</td>
<td>$13,977</td>
</tr>
<tr>
<td>Unbilled</td>
<td>15,509</td>
<td>14,905</td>
</tr>
<tr>
<td></td>
<td>26,116</td>
<td>28,882</td>
</tr>
<tr>
<td>State, local, and private sponsors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billed</td>
<td>7,592</td>
<td>6,816</td>
</tr>
<tr>
<td>Unbilled</td>
<td>4,348</td>
<td>5,771</td>
</tr>
<tr>
<td></td>
<td>11,940</td>
<td>12,587</td>
</tr>
<tr>
<td>Allowance for bad debt</td>
<td>(501)</td>
<td>(501)</td>
</tr>
<tr>
<td></td>
<td>37,555</td>
<td>40,968</td>
</tr>
</tbody>
</table>

Unbilled amounts principally represent recoverable costs and accrued fees billed in the first quarter of fiscal year 2008 and fiscal year 2007, respectively.

No significant contract terminations are anticipated at present, and past contract terminations have not resulted in significant unreimbursed costs.

4. Contributions Receivable:

Unconditional promises to give were $7,109,000 and $7,242,000 at September 30, 2007, and September 24, 2006, respectively. The receivables are recorded net of the discount for future cash flows, using the risk-free rate of return appropriate for the expected term of the promise to give determined at the time the unconditional promise to give is initially recognized (5%). Receivables expected in one year or less are included in Other receivables and receivables expected after one year are included in Other assets on the Consolidated Statements of Financial Position. The carrying amount of Contributions Receivable is deemed a reasonable estimate of their fair value.

Realization of the pledges is expected in the following periods (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>In one year or less</td>
<td>$4,424</td>
<td>$5,173</td>
</tr>
<tr>
<td>Between one year and five years</td>
<td>2,939</td>
<td>2,232</td>
</tr>
<tr>
<td></td>
<td>7,363</td>
<td>7,405</td>
</tr>
<tr>
<td>Less discount</td>
<td>(254)</td>
<td>(163)</td>
</tr>
<tr>
<td></td>
<td>7,109</td>
<td>7,242</td>
</tr>
</tbody>
</table>

As more fully described in Note 9, contributions receivable are primarily intended for the following uses (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporarily restricted</td>
<td>$6,854</td>
<td>$6,637</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>255</td>
<td>605</td>
</tr>
<tr>
<td></td>
<td>7,109</td>
<td>7,242</td>
</tr>
</tbody>
</table>

During the fiscal year ended September 30, 2007, RAND received payments of prior-year pledges in the amount of $4,217,000. No allowance for uncollectible pledges was deemed necessary at September 30, 2007, or September 24, 2006.

Donors have made conditional promises to give of $2,896,000 and $2,999,000 as of September 30, 2007, and September 24, 2006, respectively. These conditional pledges, which include revocable deferred gifts, are not recorded in these consolidated financial statements.
5. Long-Term Investments:
Cash and cash equivalents included in long-term investments consist of commercial paper, money market funds, and other short-term investments and are carried at cost, which approximates fair value.

Long-term investments are presented at fair value and all related transactions are recorded on the trade date. The investments consist of funds in both domestic and foreign equity securities and bonds. Approximately 34 percent of the long-term assets consist of foreign stocks and bonds. Bond funds and equity funds include funds that are traded in public markets or that are available exclusively to institutional investors. For funds that are available exclusively to institutional investors, the underlying assets of the funds are traded in public markets. Alternative investments include RAND's share of private equity funds and limited partnership arrangements for which there is no readily available market value. Alternative investments are carried at RAND's net contribution and allocated share of undistributed profits and losses. The underlying value of the alternative investments may include assets for which the fair value is provided by the investment manager in good faith. Some of these investments have restrictions that limit RAND's ability to withdraw funds as specified in the arrangements. RAND believes the carrying amount of these investments is a reasonable estimate of fair value. For those investments that are not traded on a ready market, the estimates of their fair value may differ from the value that would have been used had a ready market for those investments existed. The cost of securities sold is determined by the specific identification method.

As of September 30, 2007, RAND had commitments outstanding to purchase alternative investments of $4,838,000; of these commitments, approximately $1,048,000 is due within one year.

Investment income is shown net of related expenses of $455,000 and $208,000, for the fiscal years ended September 30, 2007, and September 24, 2006, respectively.

Long-term investments consist of the following (in thousands):

<table>
<thead>
<tr>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,045</td>
</tr>
<tr>
<td>Shares of bond funds, at fair value (cost, 2007—$77,031, and 2006—$74,095)</td>
<td>75,260</td>
</tr>
<tr>
<td>Shares of equity funds, at fair value (cost, 2007—$52,750, and 2006—$46,943)</td>
<td>81,049</td>
</tr>
<tr>
<td>Alternative investments (cost, 2006—$30,696, and 2006—$23,520)</td>
<td>45,267</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$205,621</strong></td>
</tr>
</tbody>
</table>

6. Postretirement Benefits Other Than Pensions:
In addition to providing certain retirement benefits, RAND provides health care benefits to certain employees who retire having met the required age and years of service with RAND. This coverage also applies to their dependents. Retirees may elect coverage under the Preferred Provider Organization, various HMOs, or reimbursement of individually purchased Medigap policies. Medicare becomes the primary coverage for retirees when they reach age 65. Retirees and dependents share substantially in the cost of coverage. RAND retains the right, subject to existing agreements, to change or eliminate these benefits.

During 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act") was signed into law. The Act expanded Medicare to include, for the first time, coverage for prescription drugs (Medicare Part D). This new coverage was generally effective January 1, 2006. Medicare Part D subsidies are reflected with respect to RAND's postretirement benefit liabilities.

RAND's retiree medical program already provides prescription drug coverage for retirees over age 65 that equals or exceeds the benefit to be provided under Medicare. As long as the retirees remain in the Company medical plan rather than enrolling in the new Medicare prescription drug coverage, Medicare will share the cost of the plan with the Company and the employees. This legislation has therefore reduced RAND's share of the obligations for future retiree medical benefits.
The following table sets forth the plan's funded status reconciled with the amount shown in the Consolidated Statements of Financial Position (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in benefit obligation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$20,169</td>
<td>$20,292</td>
</tr>
<tr>
<td>Service cost</td>
<td>664</td>
<td>655</td>
</tr>
<tr>
<td>Increase due to passage of time</td>
<td>1,189</td>
<td>1,146</td>
</tr>
<tr>
<td>Plan participants' contributions</td>
<td>480</td>
<td>386</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>(793)</td>
<td>(1,422)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,017)</td>
<td>(888)</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>20,692</td>
<td>20,169</td>
</tr>
<tr>
<td><strong>Change in plan assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>6,090</td>
<td>5,365</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>684</td>
<td>285</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>914</td>
<td>942</td>
</tr>
<tr>
<td>Plan participants' contributions</td>
<td>480</td>
<td>386</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,017)</td>
<td>(888)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>7,151</td>
<td>6,090</td>
</tr>
<tr>
<td>Unfunded obligation</td>
<td>13,541</td>
<td>14,079</td>
</tr>
<tr>
<td>Unrecognized net actuarial loss</td>
<td>—</td>
<td>(1,338)</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>—</td>
<td>(5)</td>
</tr>
<tr>
<td>Net amount recognized</td>
<td>$13,541</td>
<td>$12,736</td>
</tr>
</tbody>
</table>

The following table provides the relevant weighted-average assumptions used:

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate used to determine benefit obligation</td>
<td>6.50%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Discount rate used to determine net periodic postretirement benefit cost</td>
<td>6.00%</td>
<td>5.75%</td>
</tr>
<tr>
<td>Long-term rate of return on plan assets</td>
<td>8.00%</td>
<td>8.00%</td>
</tr>
</tbody>
</table>

Assumed health care cost trend rates are as follows:

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care cost trend rate assumed for next year</td>
<td>9.50%</td>
<td>9.50%</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td>2014</td>
<td>2013</td>
</tr>
</tbody>
</table>

The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the service cost and increase due to passage-of-time components of the fiscal year 2007 expense by $350,000 and the accumulated postretirement benefit obligation as of September 30, 2007, by $2,948,000. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the service cost and decrease due to passage-of-time components of the fiscal year 2007 expense by $281,000 and the accumulated postretirement benefit obligation as of September 30, 2007, by $2,443,000.
The net periodic postretirement benefit cost for fiscal years ended September 30, 2007, and September 24, 2006, included the following components (in thousands):

<table>
<thead>
<tr>
<th>Component</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost-benefits attributed to service during the period</td>
<td>$664</td>
<td>$655</td>
</tr>
<tr>
<td>Increase in the accumulated postretirement benefit obligation to recognize the effects of the passage of time</td>
<td>1,189</td>
<td>1,146</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(489)</td>
<td>(333)</td>
</tr>
<tr>
<td>Recognition of loss</td>
<td>—</td>
<td>190</td>
</tr>
<tr>
<td>Recognition of prior service cost</td>
<td>(26)</td>
<td>(93)</td>
</tr>
<tr>
<td>Net periodic postretirement benefit cost</td>
<td>$1,338</td>
<td>$1,565</td>
</tr>
</tbody>
</table>

The following benefit payments, which reflect expected future service and Medicare Part D subsidies, as appropriate, are expected to be paid (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Benefit Payments</th>
<th>Medicare Part D Subsidies</th>
<th>Net Benefit Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$839</td>
<td>$55</td>
<td>$784</td>
</tr>
<tr>
<td>2009</td>
<td>975</td>
<td>66</td>
<td>909</td>
</tr>
<tr>
<td>2010</td>
<td>1,083</td>
<td>79</td>
<td>1,004</td>
</tr>
<tr>
<td>2011</td>
<td>1,183</td>
<td>92</td>
<td>1,091</td>
</tr>
<tr>
<td>2012</td>
<td>1,252</td>
<td>106</td>
<td>1,146</td>
</tr>
<tr>
<td>Next five years</td>
<td>7,609</td>
<td>772</td>
<td>6,837</td>
</tr>
</tbody>
</table>

Asset allocations at September 30, 2007, and September 24, 2006, by asset category are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and short term</td>
<td>10%</td>
<td>27%</td>
</tr>
<tr>
<td>Shares of bond funds, at fair value</td>
<td>34</td>
<td>29</td>
</tr>
<tr>
<td>Shares of equity funds, at fair value</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>Alternative investments</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Adjustment to Postretirement Benefit Liability (other than net periodic postretirement benefit cost) on the Consolidated Statements of Activities and Changes in Net Assets for the period ended September 30, 2007, is the required FASB 158 transition adjustment comprised of an actuarial loss of $349,000 and prior service costs of $31,000 and represents the cumulative amounts previously unrecognized in net periodic benefit cost as of September 30, 2007.

Estimated prior service costs and actuarial net losses that are expected to be recognized in net periodic postretirement benefit cost during fiscal year 2008 are $7,600 and $0, respectively.

RAND contributes to a Voluntary Employee Benefit Association irrevocable trust that is used to partially fund health care benefits for future retirees. In general, retiree health benefits are paid as covered expenses are incurred.
7. Borrowing Arrangements:

Revenue Bonds. In 2002, RAND issued $130,000,000 of tax-exempt revenue bonds to finance the construction of its new Santa Monica headquarters facility ($32,500,000 Series 2002A fixed rate and $97,500,000 Series 2002B variable rate). During fiscal year 2007, RAND initiated an allowed-for one-time advanced refunding of its 2002A fixed rate bonds resulting in the issuance of $34,975,000 Series 2007 additional variable rate tax-exempt revenue bonds and the defeasance of the original Series 2002A as part of a plan of refinancing. The proceeds from the Series 2007 bonds, net of issuance costs of $1,006,000, were irrevocably deposited into an escrow fund and invested in U.S. Treasury Securities in an amount sufficient to service the principal and interest payments on the Series 2002A bonds through the redemption date of April 1, 2012. Included in management and general expenses on the Consolidated Statements of Activities and Changes in Net Assets is $2,077,000, recognized as a loss on the extinguishment of the Series 2002A fixed rate bonds.

In anticipation of the issuance of the Series 2007 variable rate bonds, RAND entered into an interest swap agreement with a counterparty (the 2007 Swap) whereby RAND agrees to pay the counterparty a fixed rate of interest of 3.955% and the counterparty agrees to pay RAND the Series 2007 variable rate until April 1, 2012, and 67% of one-month Libor thereafter. The 2007 Swap terminates on April 1, 2042, the maturity date of the Series 2007 variable rate bonds. In addition, RAND entered into an interest rate swap agreement with a counterparty for $42,350,000 of its existing Series 2002B variable rate bonds (the 2002 Swap) whereby RAND agrees to pay the counterparty a fixed rate of interest of 3.955% and the counterparty agrees to pay RAND 67% of one-month Libor. The 2002 Swap terminates on April 1, 2042, the maturity date of the Series 2002B variable rate bonds. Included in Other items on the Consolidated Statements of Activities and Changes in Net Assets and in Other long-term liabilities on the Consolidated Statements of Financial Position is $3,625,000, recognized as the change in fair value of these derivative instruments.

The payment of principal and interest on the bonds is insured by a third party. Long-term debt is as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2007, issued in the original principal amount of $34,975,000, in connection with an advanced refunding of the Series 2002A bonds, in September 2007; average interest rate of 3.65% for the fiscal year ending September 30, 2007; annual principal payments ranging from $400,000 to $1,825,000, beginning April 1, 2008, and ending April 1, 2042</td>
<td>$34,975</td>
<td>—</td>
</tr>
<tr>
<td>California Infrastructure and Economic Development Bank Fixed Rate Revenue Bonds, Series 2002A, issued in the original principal amount of $32,500,000, in connection with the construction of a new facility in Santa Monica, California, in July 2002; interest rates ranging from 3.50% to 5.50%; defeased in September 2007; balance as of September 24, 2006, includes unamortized bond premium of $171,000</td>
<td>—</td>
<td>32,326</td>
</tr>
<tr>
<td>California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2002B, issued in the original principal amount of $97,500,000, in connection with the construction of a new facility in Santa Monica, California, in July 2002; average interest rate of 3.5% and 3.1% for fiscal years ending September 30, 2007, and September 24, 2006, respectively; annual principal payments ranging from $1,470,000 to $4,400,000, beginning April 1, 2008, and ending April 1, 2042</td>
<td>94,000</td>
<td>95,430</td>
</tr>
<tr>
<td>Less current portion</td>
<td>(1,870)</td>
<td>(1,785)</td>
</tr>
<tr>
<td></td>
<td>$127,105</td>
<td>$125,971</td>
</tr>
</tbody>
</table>

Annual bond principal payments are required in the following fiscal years (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Thereafter</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,870</td>
<td>1,980</td>
<td>2,050</td>
<td>2,130</td>
<td>2,200</td>
<td>118,745</td>
<td>118,745</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$128,975</td>
<td>$128,975</td>
</tr>
</tbody>
</table>

Annual bond principal payments are required in the following fiscal years (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Thereafter</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>118,745</td>
<td>118,745</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$128,975</td>
<td>$128,975</td>
</tr>
</tbody>
</table>

Annual bond principal payments are required in the following fiscal years (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Thereafter</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>118,745</td>
<td>118,745</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$128,975</td>
<td>$128,975</td>
</tr>
</tbody>
</table>
Accrued interest payable relating to the bonds was $298,000 and $1,035,000 as of September 30, 2007, and September 24, 2006, respectively. The estimated fair value of RAND’s revenue bonds, including the current portion, was $128,975,000 and $129,139,000 as of September 30, 2007, and September 24, 2006, respectively.

**Line of Credit.** RAND has an uncollateralized line of credit in the principal amount of $18,000,000 at September 30, 2007, which expires in May 2008. The line of credit contains covenants that require RAND to maintain a minimum amount of liquid assets and tangible net worth. There were no amounts outstanding at September 30, 2007, and September 24, 2006. Under the terms of the credit agreement, interest is payable monthly at either the prime rate less .75 percent or the LIBOR rate plus 1.5 percent, as selected by RAND. No amounts were drawn on the line of credit agreement in fiscal years 2007 or 2006.

RAND’s total interest expense was $5,093,000 and $4,718,000 for the fiscal years ended September 30, 2007, and September 24, 2006, respectively.

8. **Commitments and Contingencies:**

**Lease Commitments.** Operating lease commitments, net of $4,836,000 representing subleases, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$7,850</td>
</tr>
<tr>
<td>2009</td>
<td>8,701</td>
</tr>
<tr>
<td>2010</td>
<td>8,836</td>
</tr>
<tr>
<td>2011</td>
<td>9,000</td>
</tr>
<tr>
<td>2012</td>
<td>8,912</td>
</tr>
<tr>
<td>Thereafter</td>
<td>24,303</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$67,602</td>
</tr>
</tbody>
</table>

Future minimum rentals are primarily comprised of office, equipment, and warehouse space leases. Certain of RAND's office leases contain rent escalation clauses and fair-market renewal options. All property leases generally require RAND to pay for utilities, insurance, taxes, and maintenance. RAND’s net rental expense was $7,440,000 and $8,285,000 for the fiscal years ended September 30, 2007, and September 24, 2006, respectively.

**Other Commitments.** Contract costs billed to government clients are subject to audit by the Defense Contract Audit Agency (“DCAA”). Resulting indirect cost adjustments, if any, are prorated to all contracts. Contract costs billed prior to September 24, 2006, have been audited and accepted. To date, there have been no significant cost disallowances. In the opinion of management, contract costs billed subsequent to September 24, 2006, are allowable, and any potential cost disallowance would not materially affect RAND’s consolidated financial position, results of operations, or cash flows.

RAND has certain contingent liabilities with respect to claims arising from the ordinary course of business. In the opinion of management, such contingent liabilities will not result in any loss that would materially affect RAND's financial position, results of operations, or cash flows.

**Environmental Remediation.** Under the terms of an agreement with the City of Santa Monica (the “City”) for the sale of land owned by RAND, RAND is responsible for the demolition of existing buildings on the site and environmental remediation with respect to the underlying land.

During 2006, RAND reevaluated its estimate of costs related to the demolition and remediation. Based on the most current information available, RAND accrued an additional $5,551,000, which is included in Remediation related to land sale on the Consolidated Statements of Activities and Changes in Net Assets for fiscal year 2006. The estimated outstanding liability associated with the demolition and environmental remediation is $0 and $3,497,000 as of September 30, 2007, and September 24, 2006, respectively. In accordance with the terms of the agreement, an escrow account has been established to ensure performance of these matters. Also, under the terms of the agreement with the City, RAND must indemnify the City for claims related to the presence of hazardous materials at the site for a period until ten years after the demolition of the old buildings and completion of soil and groundwater remediation. There can be no assurance that future claims for indemnity will not have a material adverse effect on RAND’s consolidated results of operations or cash flows.

In December 2006, the City advised RAND that all demolition and remediation requirements under the terms of the agreement had been fulfilled and authorized release of the remaining funds from the escrow account. RAND received $1,058,000 in January 2007.
9. Net Assets:

Board-Designated Net Assets. Board-designated net assets are available for the following purposes (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated for investment</td>
<td>$142,893</td>
<td>$134,079</td>
</tr>
<tr>
<td>Designated for special use:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RAND Education</td>
<td>3,640</td>
<td>3,150</td>
</tr>
<tr>
<td>National Security Research and Training</td>
<td>2,879</td>
<td>2,350</td>
</tr>
<tr>
<td>RAND Institute for Civil Justice</td>
<td>2,673</td>
<td>2,355</td>
</tr>
<tr>
<td>President's Fund</td>
<td>747</td>
<td>514</td>
</tr>
<tr>
<td>Bing Center for Health Economics</td>
<td>390</td>
<td>369</td>
</tr>
<tr>
<td>RAND Institute for Civil Justice</td>
<td>2,879</td>
<td>2,355</td>
</tr>
<tr>
<td>President's Fund</td>
<td>747</td>
<td>514</td>
</tr>
<tr>
<td>Bing Center for Health Economics</td>
<td>390</td>
<td>369</td>
</tr>
<tr>
<td>Pardee RAND Graduate School</td>
<td>385</td>
<td>207</td>
</tr>
<tr>
<td>Other</td>
<td>697</td>
<td>430</td>
</tr>
<tr>
<td></td>
<td>11,411</td>
<td>9,375</td>
</tr>
<tr>
<td></td>
<td>$154,304</td>
<td>$143,454</td>
</tr>
</tbody>
</table>

Temporarily Restricted Net Assets. Temporarily restricted net assets are available for the following purposes (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pardee RAND Graduate School</td>
<td>$3,697</td>
<td>$3,326</td>
</tr>
<tr>
<td>RAND Center for Middle East Public Policy</td>
<td>2,720</td>
<td>2,756</td>
</tr>
<tr>
<td>National Security Research and Training</td>
<td>2,092</td>
<td>1,809</td>
</tr>
<tr>
<td>Bing Center for Health Economics</td>
<td>1,670</td>
<td>1,818</td>
</tr>
<tr>
<td>President’s Fund</td>
<td>1,626</td>
<td>101</td>
</tr>
<tr>
<td>RAND Health</td>
<td>1,591</td>
<td>2,180</td>
</tr>
<tr>
<td>RAND Center for Russia and Eurasia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RAND Business Leaders Forum</td>
<td>1,372</td>
<td>1,391</td>
</tr>
<tr>
<td>General support</td>
<td>117</td>
<td>228</td>
</tr>
<tr>
<td>RAND Institute for Civil Justice</td>
<td>1,225</td>
<td>1,209</td>
</tr>
<tr>
<td>RAND Center for Asia Pacific Policy</td>
<td>1,118</td>
<td>766</td>
</tr>
<tr>
<td>RAND Headquarters</td>
<td>1,005</td>
<td>900</td>
</tr>
<tr>
<td>RAND Pardee Center for Longer Range Global Policy</td>
<td>954</td>
<td>671</td>
</tr>
<tr>
<td>Paul O’Neill Alcoa Professorship in Policy Analysis</td>
<td>817</td>
<td>617</td>
</tr>
<tr>
<td>RAND Infrastructure, Safety, and Environment</td>
<td>631</td>
<td>307</td>
</tr>
<tr>
<td>RAND Center for Domestic and International Health Security</td>
<td>511</td>
<td>815</td>
</tr>
<tr>
<td>RAND Child Policy</td>
<td>458</td>
<td>483</td>
</tr>
<tr>
<td>LRN-RAND Center for Corporate Ethics, Law, and Governance</td>
<td>443</td>
<td>911</td>
</tr>
<tr>
<td>Other</td>
<td>1,591</td>
<td>1,382</td>
</tr>
<tr>
<td></td>
<td>$23,638</td>
<td>$21,670</td>
</tr>
</tbody>
</table>
Permanently Restricted Net Assets. Permanently restricted assets are shown below by the purpose designated by the donor. The assets are invested in perpetuity and the income is available to support the restricted activities (in thousands):

<table>
<thead>
<tr>
<th>Pardee RAND Graduate School</th>
<th>September 30, 2007</th>
<th>September 24, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>General support</td>
<td>$12,427</td>
<td>$11,711</td>
</tr>
<tr>
<td>Awards and scholarships</td>
<td>3,120</td>
<td>2,862</td>
</tr>
<tr>
<td>National Security Research and Training</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td>RAND Institute for Civil Justice</td>
<td>4,134</td>
<td>4,134</td>
</tr>
<tr>
<td>RAND Pardee Center for Longer Range Global Policy</td>
<td>3,670</td>
<td>3,670</td>
</tr>
<tr>
<td>RAND—general support</td>
<td>3,565</td>
<td>3,565</td>
</tr>
<tr>
<td>Paul O'Neill Alcoa Professorship in Policy Analysis</td>
<td>2,479</td>
<td>2,479</td>
</tr>
<tr>
<td>Tang Institute for U.S.–China Relations</td>
<td>2,000</td>
<td>—</td>
</tr>
<tr>
<td>Research Position Endowment</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Other</td>
<td>771</td>
<td>771</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$38,166</strong></td>
<td><strong>$35,192</strong></td>
</tr>
</tbody>
</table>

10. Employee Retirement Plans:

RAND has four defined contribution employee plans: a Qualified Retirement Plan ("QRP"), a Supplemental Retirement Annuity Plan ("SRAP"), a Nonqualified Deferred Compensation Plan ("NDCP"), and a Nonqualified Supplementary Plan ("NSP"). Most full-time, regular employees are eligible to participate in the QRP and SRAP. Certain employees are eligible to participate in the NSP and NDCP. RAND has reserved the right to terminate the plans at any time, but in such an event, the benefits already purchased by the participant and contributions already made by RAND would not be affected. The QRP and the NSP are entirely RAND-financed. RAND’s contributions to the Plans for eligible employees range from 5 percent to 14 percent of salaries, depending on the level of wages and age of the participating employee. RAND’s contributions to the QRP vest at the earlier of retirement or four years of service. Vesting begins after two years of service and increases weekly to 100 percent at the end of four years of service. The NSP and NDCP vest under various conditions specified in the plan. All contributions made by RAND are charged to operations. RAND’s contributions were $10,081,000 and $9,490,000 for the fiscal years ended September 30, 2007, and September 24, 2006, respectively. The SRAP and NDCP only require employee contributions and RAND does not contribute to these plans.

11. Termination Benefits:

FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (FAS 146), includes a provision that a liability for one-time termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement must be recognized in the period(s) in which the liability is incurred. During fiscal year 2006, RAND initiated the centralization of the operations of RAND Europe to its Cambridge office. This centralization includes closure of its offices in Berlin, Germany (completed in fiscal year 2006) and Leiden, The Netherlands (completed in fiscal year 2007) and wind down of the associated legal entities (to be completed in fiscal year 2008). For fiscal year 2006, included in management and general expenses on the Consolidated Statements of Activities and Changes in Net Assets and in Accounts payable and other liabilities on the Consolidated Statements of Financial Position is $1,536,000 in one-time termination benefits for certain employees of RAND Europe who were involuntarily terminated. These benefits were paid during fiscal year 2007. An additional $491,000 of benefits were incurred during fiscal year 2007 and paid prior to September 30, 2007. No additional payments are expected during fiscal year 2008.
COVER IMAGES
GETTY IMAGES: John-Francis Bourke, schoolgirl (5–7) balancing books on head, portrait; Anthony Correia (two images), attack on New York City; Derek Croucher, traffic on street, elevated view; Ed Darack, a CH-47 chinook roars through cold mountain air; Ed Darack, driving an M1A1 Abrams Tank; Bill Gallery-Doctor Stock, the power of touch; Justin Guariglia, Ijen plateau, Bali, Indonesia; Justin Guariglia, Shaolin, Henan Province, People's Republic of China, students at the Ta-Tou Academy hold up copies of World magazine; Karen Kasmausi, banana plantation; Karen Kasmausi (two images), measles initiative launches its largest mass vaccination campaign in Kenya; John Lee, a statue of Chairman Mao among advertisements in Zhengzhou, China; Ryan Mccay, boy and girl writing on blackboard in school classroom; Michael Melford, nuclear submarine in ocean, dawn; Kevin R. Morris, U.S. Navy nuclear submarine resurfacing, Alaska, USA; Paul Nicklen, Canada Basin, Arctic Ocean, global explorer, an ROV capable of diving 9,400 feet, works off ship; Charles Ommenney, U.S. military personnel depart for overseas operations; Panoramic Images, pedestrians in front of tram, Hong Kong, China; Christopher Pillitz, Mexico, Mexico City, women and children in slum next to train tracks; Richard Ross, USA, California, Santa Barbara, dry lake bed at Gibraltar Dam; Phil Schermeister, U.S., young girl dresses up in her mother's glasses; Frank Schwere, steel skeleton of building north of Ground Zero, sunset; Frank Schwere, truck and dozer moving debris at Ground Zero, night; Uriel Sinaï/stringer, Israeli tanks prepare to roll into Gaza for continued offensive; Hugh Sitton, China, Beijing, Tiananmen Square, gateway to the Forbidden City; Keren Su, China, Gansu Province, Dunhuang, woman with camel in desert; Mario Tama, evacuees begin to return to New Orleans' devastated Lower 9th Ward; Pete Turner, road in barren landscape, dusk; Erik Von Weber, cement bridge over river leading to mountain range; Steve Winter, near Pyay, Irrawaddy River Delta, Myanmar, a man harvests rice in the Irrawaddy River Delta. AP IMAGES: Girl listening to her own heart; Iraq; Kansas Schools Bilingual; Katrina Ground Zero, sunset; Uriel Sinai/stringer, Israeli tanks prepare to roll into Gaza for continued offensive; Hugh Sitton, China, Beijing, Tiananmen Square, gateway to the Forbidden City; Keren Su, China, Gansu Province, Dunhuang, woman with camel in desert; Mario Tama, evacuees begin to return to New Orleans' devastated Lower 9th Ward; Pete Turner, road in barren landscape, dusk; Erik Von Weber, cement bridge over river leading to mountain range; Steve Winter, near Pyay, Irrawaddy River Delta, Myanmar, a man harvests rice in the Irrawaddy River Delta. AP IMAGES: Girl listening to her own heart; Iraq; Kansas Schools Bilingual; Katrina

INTERIOR IMAGES
AP IMAGES, IS651-064 (page 4); AP IMAGES, girl listening to her own heart (page 5); AP IMAGES/Petar Petrov, Bulgaria, U.S. Army exercise (page 6); AP IMAGES, U.S. antiwar demonstration (page 7); AP IMAGES/Levittown Public Library, looking for Levittown (page 8); AP IMAGES, Katrina New Orleans (page 9); GETTY IMAGES/Richard Ross, USA, California, Santa Barbara, dry lake bed at Gibraltar Dam (page 10); GETTY IMAGES/PhotosIndia, interiors of an empty conference room (page 11); FEMA/Win Henderson, volunteer workers help homeless (page 12); AP IMAGES/John Stannmeyer/VII, bird flu Indonesia (page 13); GETTY IMAGES/Ryan McCay, boy and girl writing on blackboard in school classroom (page 14); AP IMAGES/Charles E. Knoblock, first-graders publish book (page 15); AP IMAGES, Morocco-Algeria border conflict (page 16); AP IMAGES, Iraq (page 17); GETTY IMAGES/Mario Tama, NY police increase vigilance after possible terror threat (Page 27); GETTY IMAGES/Mario Tama, evacuees begin to return to New Orleans' devastated Lower 9th Ward (Page 27); GETTY IMAGES/Charles Ommenney, U.S. military personnel depart for overseas operations (Page 27); GETTY IMAGES/Tele Eng Koon, a worker climbs up a ladder (Page 29); GETTY IMAGES/William A. Plozman, hospital gives patient pet therapy (Page 29); GETTY IMAGES/Christopher Pillitz, Mexico, Mexico City, women and children in slum next to train tracks (Page 29). DANE BALDWIN: Jim Thomson and Ann McLaughlin Korologos (page 2); Iao Katagiri (page 18); Policy Forum (page 20); Brian Stecher and Ramon Cortines (page 21); Beth McGlynn (page 21); Paul Koege (page 21); President's Award winners (page 23); Richard Bowman (page 24); PRGS students (page 25); Fred Pardee and others (page 30); Donald Tang and Michael Tennenbaum (page 31); Malcolm Palmatier and Jim Thomson (page 32); Sherry Lansing, J. Q. Wilson, Santiago Morales, Robert Spinrad, James Lovelace (page 34); Don Rice and Jim Thomson (page 36); Sheikh Meshal Bin Hamad Al Nasser (page 37); Robert H. Brook, Jeffrey Wasserman, Leonard Schaffer, Gail Warden (page 38); Sharon Baradaran, Elizabeth Stacey, Lalita Gupta (page 39); RAND board meeting (page 40).

TIMELINE PHOTOS
RAND archives: pages 16, 17, 18, 20, 21, 22, 23, 24; AP IMAGES, briefmarken (page 25); AP IMAGES/Horst Faas, Vietnam War, captured Viet Cong (page 26); AP IMAGES, Mars face (page 27); AP IMAGES/Kurt Strumpf, Munich Terrorism 1972; GETTY IMAGES, Flying Colours Ltd. (page 28); GETTY IMAGES/Retrofile, family watching television (page 30); Permeable dam, public domain (page 31); Media Bakery, handcuffed person (page 32); DoD, MX intercontinental ballistic missile reentry vehicle, Kwajalein missile range, Marshall Islands (page 33); AP IMAGES, Ronald Reagan (page 33); AP IMAGES, xray (page 34); AP IMAGES, ozone layer (page 34); GETTY IMAGES/Roy McMahon, boy rolling joints outside (page 35); AP IMAGES/Jeff Chiu, nurse (page 36); DoD/LePFI Justin Mason, USMC, oath of reenlistment (page 36); AP IMAGES/Eugene Richards, cocaine true, cocaine blue (page 37); AP IMAGES/Karsten Thielker, Hungary NATO (page 38); AP IMAGES/Las Vegas Sun, Steve Marcus, 311 Boyz (page 38); AP IMAGES, GOP Convention, immigration (page 39); AP IMAGES, NATO expansion (page 40); AP IMAGES, AIDS failure (page 40); AP IMAGES, report on depression (page 41); AP IMAGES/Nam Y. Huh, social studies shutout (page 42); AP IMAGES/Jerome Delay, Iraq anniversary (p. 42); AP IMAGES, workers’ comp (page 43); GETTY IMAGES/Thomas Barwick (page 44); AP IMAGES, war aerial refueling (page 44); AP IMAGES, China Asia Paulson (page 45).

The RAND research referred to in the following essays is listed below:


A New Division of Labor: Meeting America’s Security Challenges Beyond Iraq, Andrew R. Hoehn, Adam Grissom, David A. Ochmanek, David A. Shlapak, Alan J. Vick, MG-499-AF

Post-Katrina Recovery of the Housing Market Along the Mississippi Gulf Coast, Kevin F. McCarthy, Mark Hanson, TR-511-0A/MAR/NAR


Heads We Win: The Cognitive Side of Counterinsurgency (COIN), David C. Gompert, OP-168-OSD

Money in the Bank: Lessons Learned from Past Counterinsurgency (COIN) Operations, Angel Rabasa, Lesley Anne Warner, Peter Chalk, Ivan Khilko, Parag Shukla, OP-185-OSD

Counterinsurgency in a Test Tube: Analyzing the Success of the Regional Assistance Mission to Solomon Islands (RAMSI), Russell W. Glenn, MG-551-JFCOM


State and Local Implementation of the No Child Left Behind Act: Volume I—Title I School Choice, Supplemental Educational Services, and Student Achievement, Ron Zimmer, Brian Gill, Paula Razquin, Kevin Booker, J.R. Lockwood III, et al., RP-1265

State and Local Implementation of the No Child Left Behind Act: Volume II—Teacher Quality Under No Child Left Behind Act, Standing Committee on Education and the Workforce, House of Representatives, RP-1283
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Donald Tang
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International

James A. Thomson
President and Chief Executive Officer,
RAND Corporation

Marta Tienda
Maurice P. During '22 Professor in
Demographic Studies and Professor
of Sociology and Public Affairs,
Princeton University

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Harold Brown
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International Studies; Former U.S. Secretary
of Defense